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German debate goes on... Page 13



Card revolution

When chips replace stripes Page 10



Sun-tan blues

How healthy is your business? Page 8



Policy trends

Better deals for early surrender Page 12

FINANCIAL TIMES

Europe's Business Newspaper

TUESDAY AUGUST 23 1994

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Mannesmann cuts loss and expects return to profit

Germany's Mannesmann group cut its first-half loss to DM27m (\$17.1m) from DM467m, thanks partly to restructuring and economic recovery. The industrial group expects to return to profit for the full year, but in a letter to shareholders and employees, chairman Joachim Fock said: "The economic recovery does not mean Germany's structural problems are resolved". Page 15; Lex, Page 14

Italian president defends central bank Italian president Oscar Luigi Scalfaro defended the country's central bank, which has been under attack by ministers since it raised two key interest rates. Page 14

Nuclear smuggling Germany and Russia agreed to combat nuclear smuggling by improving information exchanges between their intelligence agencies. Germany's nuclear fall-out, Page 13

Citic Pacific Hong Kong-listed arm of Citic, the Beijing foreign investment company, boosted first-half net earnings by 26 per cent to HK\$1.2bn (\$155.3m), helped by long-term investments such as Hong Kong Telecom and Cathay Pacific. Page 15

The UK economy grew faster than expected in the first half and economists predict that full-year growth will be well ahead of the Treasury's 2.75 per cent forecast. Page 7

Somalis kill peacekeepers Somali militiamen killed seven Indian UN peacekeeping troops in an apparent ambush near the inland town of Baidoa. Page 15

Charter wins Esab UK industrial group Charter raised its bid for Esab, the world's leading welding equipment supplier, by £26m (\$40.3m) to £286m and won round key Swedish institutional shareholders who had rejected the original offer. Page 15

Irish Americans press for Ulster ceasefire An influential Irish-American delegation in Ulster is expected to encourage the early announcement of an IRA ceasefire when it meets Sinn Féin president Gerry Adams. Page 7

Williams Companies Oklahoma-based gas pipeline operator, is to sell its WITel long-distance telephone business for \$2.5bn to LDDS, the acquisitive US telecommunications group. Page 15

Man jailed for IRA bombings Building worker Sean McNulty, 26, was jailed in London for 25 years for Irish Republican Army bomb attacks on English oil and gas depots in June last year. The IRA, which opposes Britain's presence in Northern Ireland, has admitted it carried out the bombings.

S Korea's economy to grow 6.3% South Korea's economy is expected to grow 6.3 per cent this year but slow to a rate of 7.6 per cent in 1995, the country's leading economic policy group said. Page 5

Deng at 90 China's official media were lavish with praise for the country's leader yesterday, but none of the many stories about Deng Xiaoping (left) mentioned that it was his 90th birthday. This year, the media have put more stress on Mr Deng's contribution to reform than previously, perhaps reflecting his growing influence in the country's leadership. Adoring press, Page 4; Editorial Comment, Page 13

China delays securities debate China's parliament is to delay debate on a long-awaited securities law. In the absence of formal laws, Chinese stock exchange trade is government by a series of regulations.

Militants executed Egypt hanged five Muslim militants convicted of trying to murder interior minister Hassan al-Ali minister last August. Separately, police killed three suspected militants in a shootout in the southern town of Sohag.

Child killed in Baghdad car bomb A child was killed and 13 people wounded when a car bomb exploded in Baghdad, the Iraqi capital, near the offices of the official al-Jumhuriyah newspaper.

BP to expand Czech operations British Petroleum has formed a joint venture with two investment funds to put more than \$23m into extending its petrol station network in the Czech Republic. BP owns 42 per cent of the venture.

Invasion claims Leaders of the breakaway Chechen republic claimed more than 30 Russian armoured vehicles had crossed their border. Page 2

STOCK MARKET INDICES			
FT-SE 100	4,171.3	(-20.1)	
Yield	3.97		
FT-SE Euroshare 100	1,341.23	(-10.98)	
FT-SE-A All-Share	1,980.87	(-0.57)	
IBEX35	20,394.58	(-118.12)	
New York S&P 500	4,625.1	(-1.18)	
Dow Jones Ind Ave	3,748.31	(-8.80)	
S&P Composite	462.5	(-1.18)	
US LUNCHTIME RATES			
Federal Funds	4.11%	(4.5%)	
3-mo Time Rate	4.84%	(4.65%)	
Long Bond	9.9%	(10.0%)	
Yield	7.38%	(7.48%)	
LONDON MONEY			
3-mo Interbank	5.7%	(6.1%)	
Libor 3m	5.7%	(6.1%)	
Libor 6m	5.7%	(6.1%)	
Libor 12m	5.7%	(6.1%)	
NORTH SEA OIL (Average)			
Brent 15-day (Sep)	\$16.7	(16.58)	
GOLD			
New York Comex (Dec)	\$366.7	(\$36.50)	
London	\$362.7	(\$36.11)	

Australia	50.82	Green	10.50	Libor	5.70	Oct	10.50
Bahrain	10.25	Hong Kong	10.50	Libor	5.70	Nov	10.50
Belgium	10.25	India	10.50	Libor	5.70	Dec	10.50
Canada	10.25	Indonesia	10.50	Libor	5.70	Jan	10.50
Czech Rep	10.25	Italy	10.50	Libor	5.70	Feb	10.50
Denmark	10.25	Japan	10.50	Libor	5.70	Mar	10.50
Egypt	10.25	Korea	10.50	Libor	5.70	Apr	10.50
Finland	10.25	Malaysia	10.50	Libor	5.70	May	10.50
France	10.25	Netherlands	10.50	Libor	5.70	Jun	10.50
Germany	10.25	Philippines	10.50	Libor	5.70	Jul	10.50

Johnson & Johnson in bid for grown-up market

By Richard Tomkins in New York

Johnson & Johnson, the US healthcare company famous for its baby products, yesterday made a grab for the more mature end of the sensitive skin products market with an agreed bid worth \$305.5m for Neutrogena, the US soap and shampoo company.

Neutrogena makes and sells premium-priced soaps, shampoos and skin care items that appeal particularly to people with sensitive skins. Its best-known products are a clear glycolic soap and a clear shampoo, but it has also introduced a dandruff shampoo, a sun-tan lotion and a product called HeatSafe that protects hair from being damaged by curling irons and blow dryers. Johnson &

Johnson is one of the world's biggest manufacturers of healthcare products. If the bid is successfully completed, it will add Neutrogena to its consumer products division, whose products include Johnson's Baby Oil and Band-Aid sticking plasters. Johnson & Johnson's other divisions make drugs and surgical products. Johnson & Johnson's baby care products are widely used by adults.

But recently the company has been trying to build up a share of the market for specialty soaps, skin creams and shampoos aimed at teenagers and adults. In 1991 it bought the Clean and Clear line of skin care products from Revlon, the US cosmetics company, and last year it bought the RoC beauty products company from LVMH, the French luxury goods group.

One factor that all the brands have in common is that they are sold mainly through pharmacies, drug stores and other outlets for healthcare products. Johnson & Johnson will hope to increase sales of Neutrogena soaps and shampoos by feeding them through the same worldwide distribution channels as its other consumer products.

Based in Los Angeles, Neutrogena sells its products in 72 countries and has subsidiaries in Germany, France and the UK. Recently, however, growth has been lacklustre. In 1993, net profits rose by less than 4 per cent to \$34.9m. Turnover was up by 5 per cent to \$281.7m, partly because of weak economic conditions in Europe. Last year, Johnson & Johnson's consumer products division also performed relatively poorly. International sales were hit by shifts in exchange rates, and growth in the US market was hit by competition in the over-the-counter market for vaginal yeast infection remedies. Sales rose only 0.9 per cent to \$4.5bn.

Washington bank settles after race bias claims over loans

By George Graham in Washington

The US Department of Justice yesterday settled a loan discrimination case against a Washington bank which refused to open branches in black majority areas, setting standards for the siting of banks' outlets.

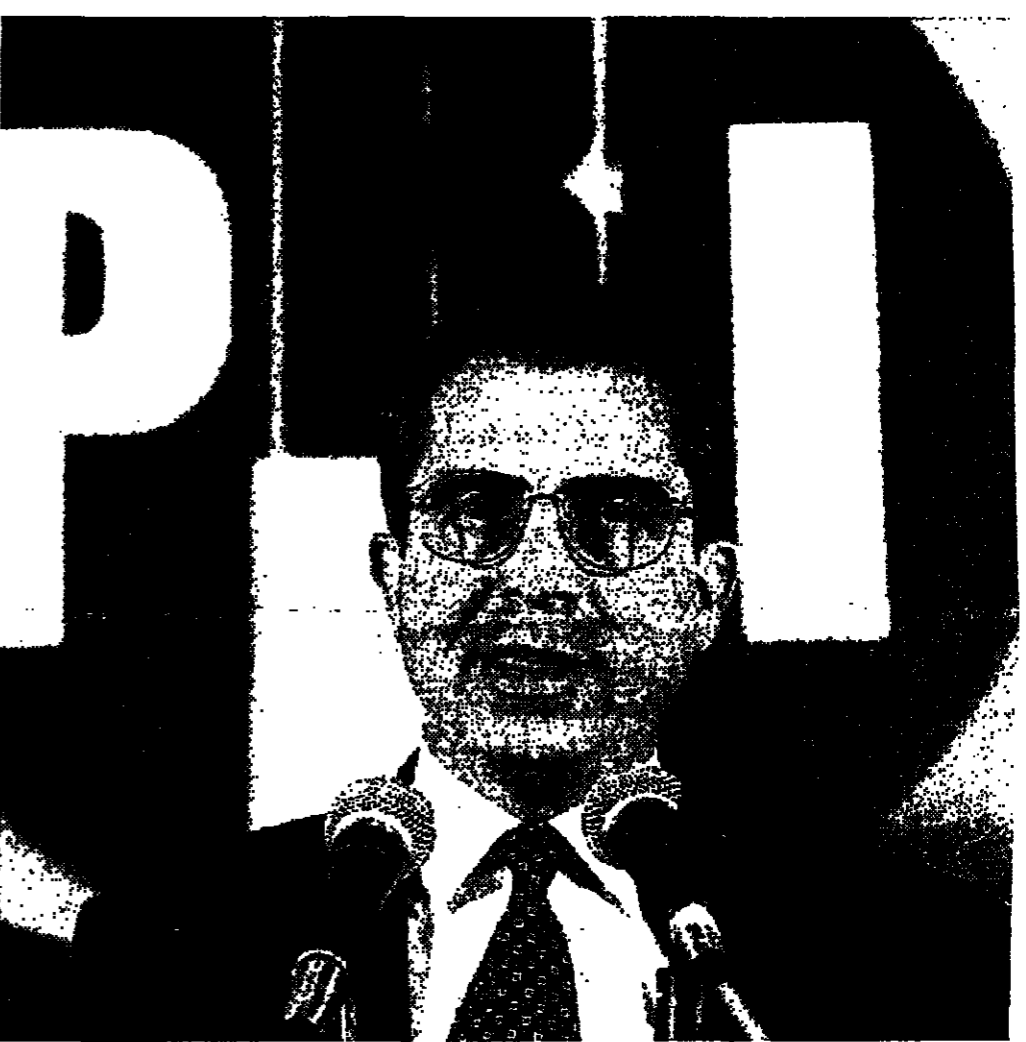
Victorious Zedillo aims to calm tensions over Mexican election

Markets rally strongly as PRI maintains its hold on power

By Stephen Fidler and Damian Fraser in Mexico City

Mr Ernesto Zedillo, the victorious candidate in Mexico's presidential elections, reached out yesterday to opposition parties in a bid to reduce political tensions after challenges over the conduct of the poll.

The main opposition parties yesterday cited widespread election irregularities on Sunday and withheld formal acceptance of Mr Zedillo's victory and that of his Institutional Revolutionary Party, which looked set to extend its 65-year reign.



Ernesto Zedillo claiming victory yesterday in the country's presidential and congressional elections

However, Mr Diego Fernandez de Cevallos, candidate of the right-wing National Action Party, said he would not contest the election results, likely to give the ruling party comfortable majorities in both houses of Congress.

Financial markets rallied strongly on the result, and the expectation that there would be no significant political confrontation following the election. By midday, the Mexican stock market was up 2.6 per cent, while the Mexican peso strengthened significantly.

Mr Zedillo, 42, a former central banker and budget and education minister in the government of President Carlos Salinas, is due to take office on December 1. He was chosen as presidential candidate after the assassination in March of the first-choice candidate, Mr Luis Donaldo Colosio.

With votes from more than 31 per cent of polling stations counted, Mr Zedillo of the PRI had 47.74 per cent of the vote, Mr Fernandez of the PAN 30.3 per cent and Mr Cuauhtémoc Cárdenas of the leftwing Party of Democratic Revolution 15.9 per cent. As votes from more remote rural areas were counted, the PRI's percentage of the vote was expected to climb to more than 50 per cent.

Mr Cárdenas yesterday addressed supporters in the main square in Mexico City, and the resulting gathering was expected to turn into protests against election fraud. "We are here to support Cuauhtémoc Cárdenas, the rightful winner. They took our supporters from the voting list so they couldn't vote," said Mr Daniel Flores, a PRD supporter.

Less than an hour before he was due to speak thousands gathered in the square. The government of President Salinas said any irregularities would not have altered the outcome of the election, though the head of an important group of citizens' observers, Civic Alliance, said the "quality of the elections is in question."



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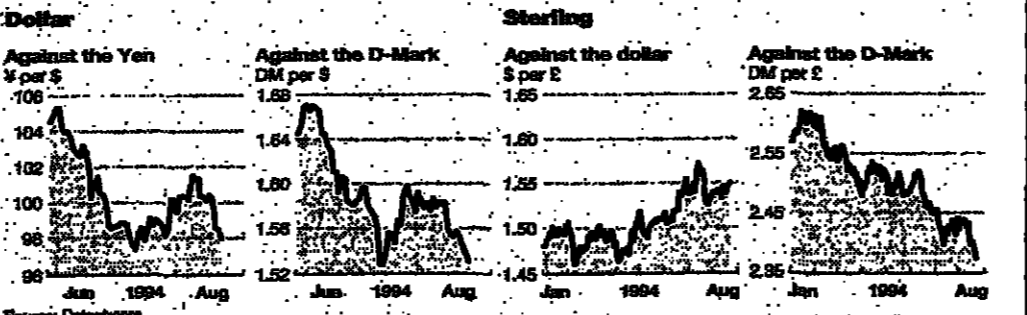
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THE BIG FOUR BANKS OF THE NORTH EAST



Dollar and sterling continue fall

The dollar and sterling yesterday continued their parallel decline, with the pound finishing at a 17-month low against the D-Mark, writes Philip Gawth.

Despite the release of buoyant UK GDP and trade data, sterling lost over a penny against the D-Mark to finish in London at DM2.3729 from DM2.3836 on Friday. Against the dollar, it closed firmer at \$1.5501 from \$1.5483.

Sterling has now lost 25 pence from a high of DM2.62 in January. Over the same period it has risen by nine cents against the dollar, from \$1.46.

Analysts said the pound was being caught in the

backwash of the movements of the dollar and the D-Mark.

The dollar is slipping back towards the lows of DM1.5165 and ¥96.55, touched on July 12. Yesterday it closed nearly a penny lower, at DM1.5369 from DM1.5396. It also slipped below ¥98, closing at ¥97.96 from ¥98.475. The market remains concerned about US-Japan trade talks, whether the Fed is winning the fight against inflation and the weakness of the Clinton presidency.

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NEWS: EUROPE

Moscow considers price freeze

Russian debt crisis worries World Bank

By Chrystia Freeland and agencies in Moscow

The World Bank began yesterday to offer Russian ministers advice on how to resolve the country's fast-growing debt crisis amid fears that Moscow is planning a price freeze.

Russia's growing inter-enterprise debt, estimated by officials to exceed Rb90,000bn (€42bn at the market rate), is at the top of the government's agenda and could determine the fate of Russia's fragile economic reforms.

In a heated meeting over the weekend of the emergency government commission convened to discuss the debt crisis one suggested solution was to freeze wages and prices. "A wage and price freeze is one idea that is floating around," said Mr Ardy Stoutsedijk, director of the World Bank office in Moscow, who met Russian officials yesterday.

But Mr Stoutsedijk, who said the Russian government considered the debt problem to be "urgent," advised Russian ministers not to adopt such a strong-armed state approach.

While Russian officials and western financial institutions consider how to resolve the debt crisis its negative effects on the Russian economy are becoming increasingly apparent. The Russian ruble hit a new low of 2,190 rubles to the dollar in trading yesterday amid market fears that the government will continue to bail out insolvent enterprises.

The Russian central bank announced yesterday it was cutting its three-month refinancing rate to 130 per cent from 150 per cent, despite the ruble's fall. It is the second rate cut this month and the seventh this year.

The new rate is effective immediately, a bank official said. The cut continued previous policies and brought the central bank rate closer into line with money market rates, currently around 105 per cent for three-month cash.

The bank was also concerned about non-payments in every sector of the economy and about falling production, the official added. "This is a continuation of our existing policies."

At the meeting yesterday between Russian ministers and the World Bank, Mr Oleg Soskovets, the deputy prime minister who heads the debt commission, spoke out against the idea of an absolute price freeze. But, in an attack on radical market reformers who argue that heavily indebted enterprises should all simply be allowed to go bankrupt, Mr Soskovets criticised "those politicised economists who believe that the formation of a market should occur in circumstances of total chaos".

Millions of victims of Stalinist repression could be compensated for their confiscated property as Russia continues to exorcise the trauma of its Soviet past, writes John Thornhill.

According to the Inter-Tass newsagency, the Russian government has passed a resolution promising to reimburse innocent victims of repression either by returning their original property or paying the cash equivalent. Details remain sketchy and the complications of implementing such a plan are vast. It is also likely that approval would first be needed from President Boris Yeltsin.

The scheme would certainly open up a Pandora's box of highly-emotional claims. During Stalin's 30-year rule, many millions were persecuted, including whole ethnic groups such as the Russian Germans, Ingushis and Crimean Tatars. Establishing the claims of respective parties would be fraught with difficulties.

Inter-Tass reported that all citizens of Russia and the other republics of the former Soviet Union would be eligible for compensation as well as foreign and stateless victims. The heirs of the repressed could also inherit their relatives' claims.

Mr Soskovets outlined a few immediate measures the Russian government will take to alleviate the debt crisis. He said Russia intends to pursue "a more severe policy with regard to the countries of the near abroad," a reference to the former Soviet republics whose unpaid bills to Russia are one source of the galloping debt.

Mr Soskovets also said that the Russian government would assume responsibility for that portion of the debt owned by state ministries and would help pay workers salaries, which in some factories are more than four months late.

He also said the government might impose price ceilings on the decision to bail out indebted enterprises.

Mr Stoutsedijk warns that "there is no magic solution" to the debt crisis, but says it is crucial that the government should avoid the mistake it made in 1992 when Prime Minister Yegor Gaidar's bold market reforms were sabotaged by the decision to bail out indebted enterprises.

One proposal put forward by the World Bank at yesterday's meeting was that the Russian government develop a separate strategy to deal with that portion of the debt - estimated at one third - owed to energy suppliers.

Action promised over plutonium

By John Thornhill in Moscow

Wider and deeper co-operation was promised to counter the threat of plutonium smuggling as German and Russian security officials concluded their talks in Moscow yesterday. The two sides said they would release a joint statement about what measures could be taken as soon as both countries' leaders had approved them.

Diplomatic sources suggested the package would probably consist of a closer exchange of intelligence infor-

mation, tighter border controls and greater financial assistance to help redirect Russia's nuclear expertise in more peaceful directions.

Mr Bernd Shmidbauer, Germany's security co-ordinator who arrived in Moscow with a team of nuclear experts on Saturday, held a final round of talks yesterday. But Russian officials continued to deny that batches of plutonium which had recently turned up in Germany originated in Russia despite the claims of western experts.

Mr Sergei Stepanin, head of Russia's counter-intelligence service, said: "We do not have a clear answer to the question of where this plutonium comes from."

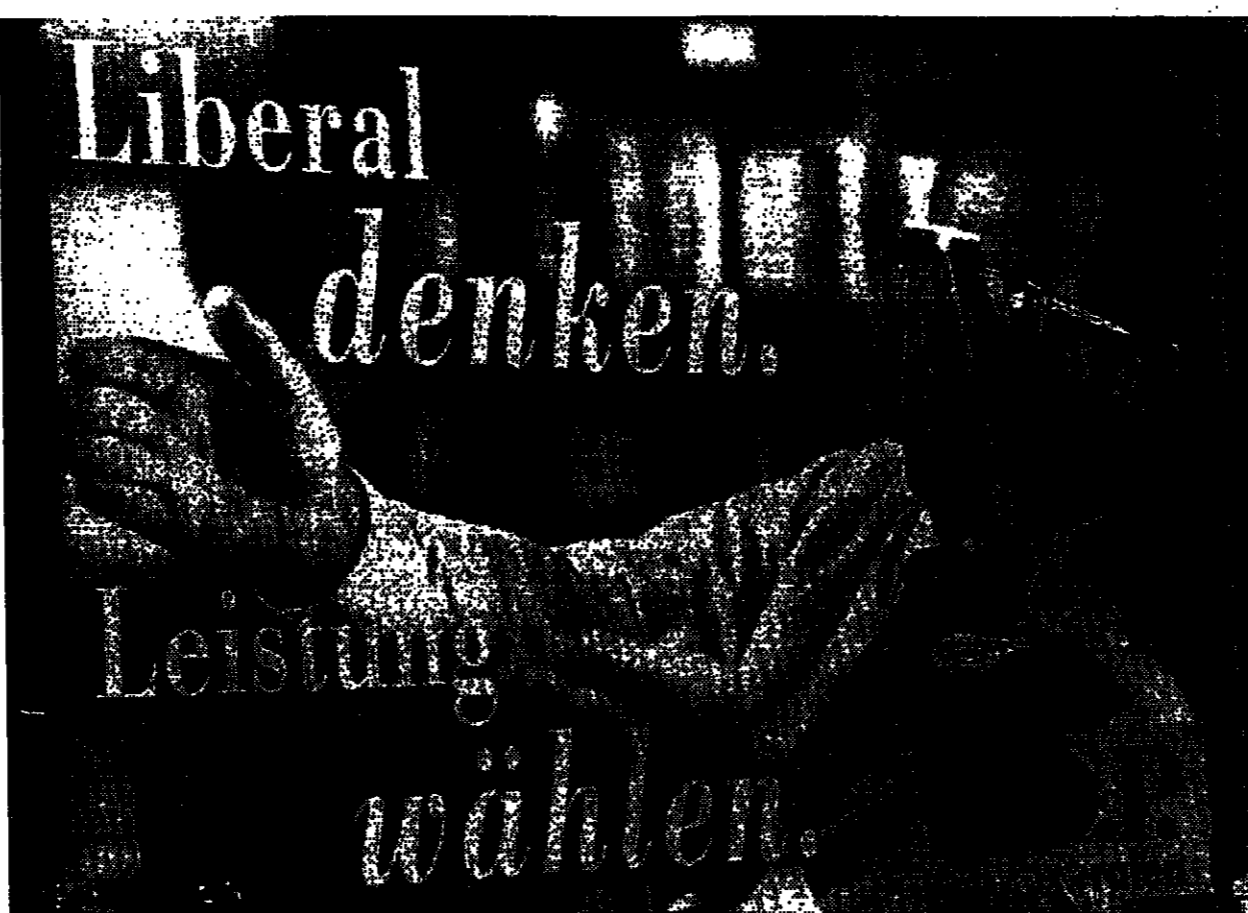
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versal cases, defending members of the Algerian anti-colonial FLN movement in the early 1960s, associates of Carlos in the early 1980s and more recently Klaus Barbie, the Nazi war criminal. He recently wrote a book called "An Open Letter to My Algerian Friends", warning the Algerian authorities that, in suppressing the Islamic fundamentalists, they were using the same oppressive tactics they had accused their former French colonial masters of.

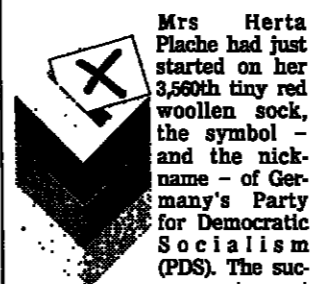
The variety of Mr Vergès' clients certainly confused at least one foreign intelligence agency. In recent days, the French press has cited files unearthed from the Stasi of the former East Germany, claiming that Mr Vergès has been a go-between Carlos and France's Mawry government in the early 1980s,



FDP leader Klaus Kinkel urges the German electorate to "Think Liberal. Vote performance" in a poll campaign poster being pasted up in front of party headquarters in Bonn yesterday

Red Socks aim to get a foot in the German parliament's door

Judy Dempsey on the poll prospects of the east's ex-communists



October 16

Mrs Herta Plache had just started on her 3,600th tiny red woolen sock, the symbol and the nickname - of Germany's Party for Democratic Socialism (PDS). The successor to east Germany's former communist party has become the repository for many east Germans' hopes.

Still more important, it could end up holding the balance of power in the Bundestag after October's general election. Mrs Plache, 83, knits six socks a day. Then she gives them to Neues Deutschland, once east Germany's communist party daily newspaper and now the region's main left-wing daily, with a circulation of 135,000 copies. "The paper sells the socks to PDS supporters," she says, sitting in her small apartment in east Berlin. "I've been doing it since 1990. It is my small contribution to the PDS."

She is one of the 130,000 paid-up PDS members in eastern Germany who hope the party will win at least three seats, the minimum required to enter the Bundestag in October. That prospect is being taken seriously in Bonn. Chancellor Helmut Kohl sees the PDS as the bogeyman of the election. His party, the Christian Democratic Union (CDU), and its senior coalition partner, the Bavarian Christian Social Union (CSU), have issued constant warnings about the return of the communist threat in the guise of the *Rote Socken* - the red socks.

Mrs Plache claims the established political parties in Bonn "are doing everything in their power to discredit us. They accuse us of wanting a return to the old communist system. This is not true." Criticism of the PDS intensified after the elections in the eastern state of Saxony-Anhalt last June when, after winning 20 per cent of the vote, the party lent its support to a minority Social Democratic/Green coalition and ousted the CDU.

If it wins seats in parliament, this episode shows how the party could play a pivotal role in helping determine who will govern in Bonn.

Recent opinion polls give the CDU a lead of 9 percentage points over the Social Democrats (SPD), but it is taking no chances. The party's main con-

cern is that support for the PDS could usher in an SPD/Green coalition on the Saxony-Anhalt model by helping to dislodge CDU governments in forthcoming state elections in Saxony, Thuringia, and Mecklenburg-Vorpommern.

The SPD and the Greens repeated yesterday that they would not form a minority government tolerated by the PDS even if such a coalition would let them out Mr Kohl in October. Yet the possibility that this outcome could emerge has become one of the main politi-

cal talking points in Germany.

In pre-election jousting in east Germany, one of the PDS's main advantages is that it inherited the old party structure of the former communists, or Socialist Unity party (SED), and some of the membership.

"Our strength lies in our grassroots organisation," says Mr Lothar Bisky, a leading member. Ninety per cent of all PDS members are former SED card-carriers. However, more than two-thirds of members are over the age of 60.

Reflecting their long-term contacts with the regions in which they are based, most PDS activists are well-known locally. By contrast, many CDU and SPD activists, originally sent into eastern Ger-

many to build up local organisations, have since returned to the west, leaving the local parties in disarray.

"The service the PDS provides is invaluable and we all know them," said Mrs Plache. "They help me fill out the endless bureaucratic forms.... Above all, they protect our interests."

In east Berlin, for example, the PDS has campaigned against a decision by the cash-strapped government of Berlin to scrap public transport subsidies for pensioners. "None of

higher rents, privatisation of the housing stock, or the closure of local child care centres.

Many politicians from the established German parties believe the PDS represents the voice of the disaffected, and hope it will disappear once a self-sustaining economic upswing materialises in the east. However, a study by Berlin's Free University indicates that this protest vote may be around for some time. Many PDS members who are on low incomes or unemployed, or have taken early retirement are likely to remain dissatisfied with post-unification conditions for a lengthy period.

"I do not believe that the PDS is an ephemeral party," says Mr Bisky. "In the long term, we want to become the alternative to the SPD in eastern Germany. There is a need for a left-wing party in Germany, especially in eastern Germany." The SPD is too centrist, it has failed to grasp the problems, which explains why the PDS is filling that vacuum left by the SPD here in the east.

Mr Gregor Gysi, one of the party's leading members, wants to transform it into a modern social democratic party to represent the east German population who feel they have no voice in united Germany. It will not be an easy task.

The PDS is far from a monolithic, disciplined party of the old SED days. The grassroots comprise the Communist Platform splinter group, die-hard Marxists who reject the capitalist system, and which in turn provide easy prey for CDU's attacks on the party. Mr Gysi cannot yet rein in this section of the party - he needs them to help organise locally. The outcome of the federal elections might give him the chance to modernise it.

"If we get our three seats in the Bundestag, it will give us the clout and the authority to help us redefine the future direction of the PDS," says Mr Bisky. "The end of the cold war does not mean the end of the left here, or in eastern Europe, as recent elections in Poland and Hungary have shown. Maybe Bonn would wish otherwise. But the trends in post-communist countries suggest that voters want a stake in the changes brought about by the collapse of the communist era. Above all they want a voice to represent their interests. I hope the PDS is that voice."

"So do I," says Mrs Plache in her east Berlin flat. "I want to keep knitting red socks until the day I die."

of falsifying evidence on suspected Irish terrorists in 1982. It was Mr Barril who said Mr Vergès was "a priority target" for the French authorities.

Meanwhile, a senior Sudanese official told the French press over the weekend that the extradition of Carlos was a "model of co-operation" between the two countries. Mr Alain Juppé, the French foreign minister, was yesterday more circumspect about relations with Sudan, which he said was conducting "an extraordinarily bloody war" against its south and was "sometimes" suspected of harbouring terrorists. However, the minister said there was no hidden "counterpart" in the Carlos extradition, such as Iranian pressure on Khartoum in gratitude for France's return of two suspected Iranian terrorists to Tehran last year.

Saying that he did discuss the fate of Carlos' associates in the early 1980s with senior officials of the Mawry government, Mr Vergès also claimed he was put on a list of supposedly dangerous people for "rapid elimination", and that this task was given to Mr Paul Barril, whom he defended on a charge

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of falsifying evidence on suspected Irish terrorists in 1982. It was Mr Barril who said Mr Vergès was "a priority target" for the French authorities.

EUROPEAN NEWS DIGEST

Chechens say border crossed

Leaders of the Chechen republic yesterday claimed that more than 30 Russian armoured vehicles had entered their territory. Speaking on the telephone from Grozny, the Chechen capital, Mr Ayub Satuev, the minister of the interior, claimed that the vehicles were operated by Russian soldiers. Mr Satuev said the equipment would be given to the Russian-backed opposition forces, which control some Chechen territory and are trying to oust President Dzhokhar Dudayev. Over the past month Moscow has waged a fierce rhetorical battle against the break-away Chechen state, whose ability to maintain effective independence for nearly three years is seen as an affront.

Opposition leaders, who have been handing out cash provided by the Russian government to their supporters, have said that they plan to hold a demonstration in Grozny. Mr Dudayev's stronghold, on Thursday. Observers believe that the demonstration could develop into an armed showdown. The situation has been complicated by the recent return of Mr Ruslan Khasbulatov, the former chairman of the Russian parliament. A sworn enemy of Russian President Boris Yeltsin and a native of Chechnya, Mr Khasbulatov is trying to make a political comeback. Chrystia Freeland, Moscow.

MMM reopens for business

The Moscow offices of the MMM investment fund re-opened yesterday to queues of prospective investors despite the collapse in its share price last month and government warnings that its new "tickets" were not valid stocks. The tickets are not officially registered as shares and thus the government, which warned potential investors that they would be buying nothing more than "pretty postcards", has few legal means to prevent their sale. The MMM offices had been closed since August 4, when tax police arrested Mr Mavrodi on charges of tax evasion. Mr Mavrodi reversed the decision to close the branches last week in an order issued from his prison cell.

The 10,000 Russians who have signed up to buy the tickets are making a questionable investment. The tickets are being sold for 1,515 rubles each on the strength of the MMM fund's promise to at some unspecified date redeem the tickets for MMM shares at a rate of 100 tickets per share. Ticket buyers are thus gambling that MMM shares will eventually rise to a value of 151,500 rubles each. On the informal black market which has developed on the pavements outside MMM branches in Moscow, shares are selling for up to 9,000 rubles and MMM tickets are unofficially changing hands at 3,000 rubles each. Chrystia Freeland, Moscow.

Markets welcome budget plans

The Swedish krona stiffened yesterday and long-term interest rates eased as financial markets gave an initial welcome to a pledge by the opposition Social Democratic Party to take tough action to curb fast-growing government debt if it wins next month's general election. The markets expect the Social Democrats, the country's biggest political party, to win the election and had driven up interest rates and speculated against the krona in the absence of a detailed opposition plan to stem the SEK200bn (£16.7bn) budget deficit. The proposal unveiled on Friday evening to strengthen the budget by SEK51bn over the next four years through a mix of tax rises and spending cuts has been criticised as "too little, too late" by the centre-right government. Hugh Carnegie, Stockholm.

Dutch coalition sworn in

Queen Beatrix yesterday swore in Mr Wim Kok, the Labour party leader, as the new prime minister of the Netherlands. Mr Kok's three-party coalition government of Labour, the right-wing Liberals and the left-leaning D66 party is taking office more than three months after general elections in which the Christian Democrats, led by outgoing prime minister Mr Ruud Lubbers, suffered an historic defeat. The new cabinet's first task will be to put together a "government declaration" that will be debated in parliament next week. It will also start filing in the details of the 1995 budget, due to be presented in parliament on September 30. Ronald van de Krol, Amsterdam.

Greece steps up deportations

Greece has stepped up its deportations of tens of thousands of illegal Albanian refugees in retaliation for Albania's trial of five ethnic Greeks. The trial has been described as a "parody" by Greek officials. More than 5,000 Albanians have been expelled within the past eight days. Greece says there are over 300,000 ethnic Greeks living in Albania but Albania claims the number is about 70,000. In a separate development, the British Helsinki Human Rights Group has published a report which accuses the Greek government of routinely suppressing the small Macedonian community which lives in northern Greece. Reuters Athens.

BP plans Czech expansion

British Petroleum has formed a joint venture with two investment funds to put more than \$200m (£14.5m) into extending its network of petrol stations in the Czech Republic. BP's Prague general manager said yesterday. The joint venture, BP Cerpaci Stanice CR, is 42 per cent owned by BP. The remainder is held by two capital markets investment funds - the Czech and Slovak Investment Corporation (CSIC), managed by international broker Robert Fleming Securities, and the New Europe East Investment Fund (NEEF), owned by the privately-held US fund manager Capital International. Mr Mike Gibson said BP would expand from four filling stations to 12 by 1996, and later would increase the number of stations to as many as 30. Reuters, Prague.

ECONOMIC WATCH

Danish inflation falls to 2.1%

Denmark's Consumer Price Index fell 0.2 per cent in July from June, with the year-on-year inflation rate down to 2.1 per cent, said Danmarks Statistik, the Danish national statistics agency. Also released, the Danish current account surplus for February to April fell to DKR5.0bn compared with a surplus of DKR9.4bn for the same three-month period in 1993. The agency said the decline in the current account surplus was caused by a strong rise in imports and predicted that this trend was likely to continue. Reuters.

German industrial capacity utilisation rose to 82.3 per cent in June from 80.3 in March, according to a survey by the German economics institute IFO. The institute said it expected increased utilisation rates in the third quarter. The rise stemmed primarily from increases in semi-finished products and investment goods. The metals industry showed a particularly high capacity use rate, up to 85.3 per cent in June from 81.7 in March.

Dutch consumer confidence continued to improve in August and hit its highest level since August 1990, reported the government's Central Bureau for Statistics.

Italian consumer prices rose 0.3 per cent month on month and 3.7 per cent year on year in July, according to unofficial data collated by the city of Bologna.

Hungary's current account showed a deficit of \$1,429bn in the first five months of the year, reported the National Bank of Hungary. According to preliminary calculations, the deficit increased by almost \$600m in June, which means that the deficit for the first half of the year is expected to be \$1.9bn.

إسلامي

NEWS: WORLD TRADE

EU toughens stance on Turkish trade ties

By John Murray Brown
in Istanbul

The European Union is toughening its stance in negotiations with Turkey on a customs union, indicating it may cancel the date for implementation if progress on legislative reform is not made.

Turkey is due to enter the customs union - lowering its trade barriers to EU goods to zero and adopting the Union's common external tariff - on January 1 1996.

However in a move strongly opposed by the Turks, Brussels has now thrown in an additional review date - September 1995 - giving the EU an effective last minute opt-out of the negotiations.

Commission officials insist the ball is in Turkey's court. The EU opened its markets to Turkish industrial products in 1973. However, Turkey has still got some way to go to cut tariffs and adopt legislation that will bring trade and industrial policy into line with that of the EU.

A customs union is an important step to closer ties with Europe, first envisaged in the Ankara agreement of 1963, and Mrs Tansu Ciller, the prime minister, has made it

one of her key policy targets. The next few weeks will decide whether or not the two sides can narrow their differences.

Mrs Ciller sent a "white paper" to all government departments in May outlining the conditions and timetable to be met.

In early September, the EU Council is expected to give its endorsement to a framework work programme to complete the customs union.

However, commission officials warn there is considerable work to be done before foreign ministers of the Turkish-EU Association Council can meet in December to give the final go-ahead.

Turkey currently engaged in an economic structural adjustment effort, under the auspices of the International Monetary Fund.

There is some concern that difficulties in fulfilling the IMF's standby agreement could hinder the reforms needed to put a customs union in place. The Fund is due to make its first review of progress in the second week in November.

The main EU concern is that Turkey's parliament may have problems approving legislation in critical areas such as intellectual property rights, indus-

trial and competition policy.

There are still a number of key points of disagreement.

■ During his visit in February, Sir Leon Brittan, the EU trade commissioner, warned that if a competition policy in line with the EU's was not in place and operating, the EU's anti-dumping provisions, which Turkey wants lifted, would be retained beyond the date of customs union implementation.

■ Turkey wants the quotas lifted on textiles, Turkey's largest export earner with around \$5.3bn of sales in 1993, 70 per cent of which went to EU markets. However, the EU is under pressure from Spain and Portugal, who are wary of increased Turkish textile shipments to the Union.

■ On technical standards, Turkey wants both sides to adopt the principle of mutual recognition, while the EU calls for Turkey to adopt the EU code.

■ Perhaps the most contentious issue is that of financial co-operation which Turkey maintains the EU is obliged to provide as part of the original Ankara accord.

The EU appears amenable to some form of financial support, but wants the issue treated separately from the customs union negotiations.

Oil companies 'using older tankers'

By Charles Batchelor,
Transport Correspondent

Many of the world's largest oil companies are continuing to charter very old tankers despite concerns about the threat old vessels pose to the environment.

Tanker owners also appear to be cutting down on maintenance and repair work.

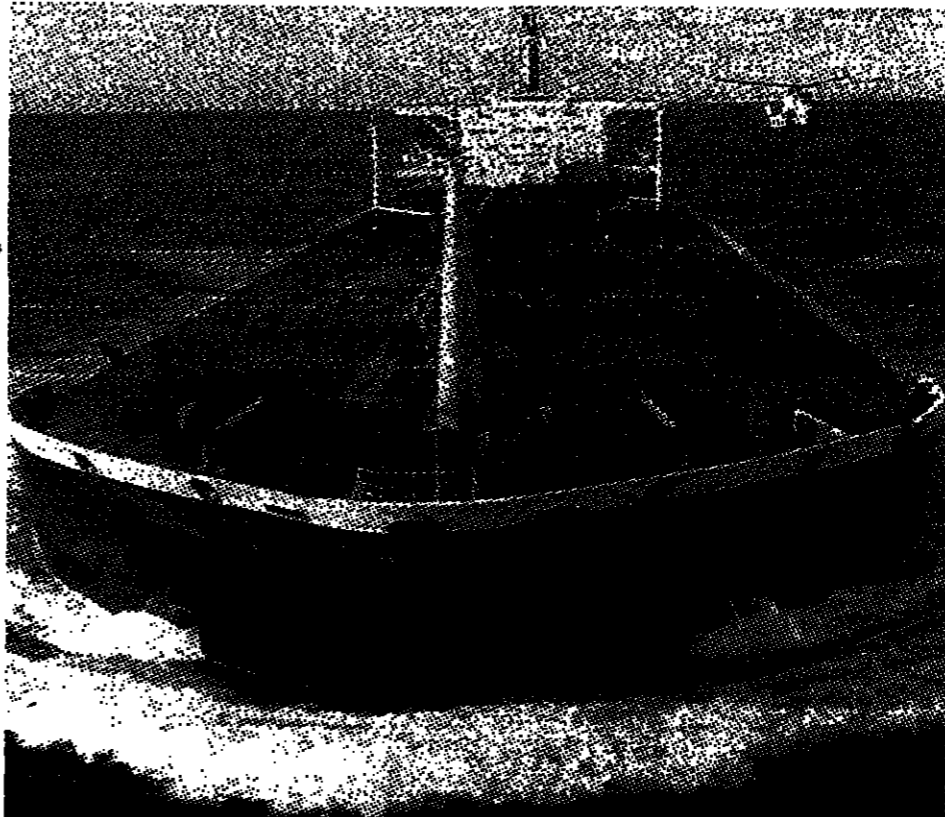
These findings emerged from two surveys carried out for the International Association of Independent Tanker Owners (Intertanko).

The surveys looked at the age profile of chartered supertankers, vessels of more than 200,000 tonnes, and at the time tankers spent undergoing repair in dry dock.

The average age of chartered supertankers in the first seven months this year was 14 years

The Kuwait Petroleum Company topped the list of large charterers using vessels with an average age of 18 years followed by Total, the French group, with an average of 17 years.

British Petroleum and Exxon



A Shell tanker plies the Atlantic on its way to Milford Haven from Kuwait

Glen Gavan

used chartered fleet which was on average 16 years old. The average age of supertankers chartered by all companies in the first seven months of 1994

was 14 years with Shell, the Anglo-Dutch group, employing vessels with an average age of 13 years and Mobil of the US using a fleet of 12 years.

All of the top 10 charterers were prepared to use individual vessels up to 20 years old, frequently a time when the need for significant repairs

emerges and owners decide to sell or scrap.

But fears that the increasing age of the world tanker fleet in itself poses a higher risk of oil spills and environmental damage does not appear to be born out despite insurance industry pressure to levy higher premiums on older ships.

Commenting on the survey findings, leading oil companies said age was only one factor they took into account.

"We carry out regular positive vetting," BP said. "You can have a three-year-old ship which has not been maintained as well as an 18-year-old vessel."

Exxon said it would be chartering newly built tankers over the next two years, but emphasised that it assessed "a ship's condition, history, owner, operating practices and management. We don't exclude a ship solely because of its age."

But the increasing average age of the world tanker fleet and stricter controls should have led to a rise in the number of tankers undergoing upgrading and repair in dry dock, Intertanko said.

Yet only 300 tankers entered dock in the first half of 1994 compared with nearly 900 in the whole of 1991. They spent on average 22 days in dock compared with 28 days in 1992.

Owners appear to be delaying work because of financial pressures, Intertanko said.

Turkey grapples with a looming power shortage

The \$1.3bn promised for the energy sector may be in doubt, writes John Murray Brown

Turkish energy policy is back on the front burner, as the authorities grapple with the prospect that the country could face a power shortage as early as the start of 1996.

Turkey confronts an awkward dilemma - how to invest in new capacity while adhering to the foreign debt ceilings envisaged under the economic standby agreement with the International Monetary Fund.

Mrs Tansu Ciller, the prime minister earlier promised to allocate \$1.3bn for the energy sector under the 1994 investment programme, although in the wake of the current austerity measures the fate of that undertaking is unclear.

Mrs Ciller is also pushing ahead with plans to privatise Tek, the state run utility.

Last September, the government submitted a decree dividing Tek into two separate public companies, comprising the transmission and generation businesses (Tgas) and Teds, the distribution unit. During the first stage the government plans to privatise 10 lignite-fired power plants, starting with the Afshin-Elbistan plant.

But, however much the government is able to stick to its IMF programme, and turn around the economy, if the country suffers power cuts, the recovery could be nipped in the bud.

According to a study by the energy ministry, Turkey needs to build 187 power plant units by 2010 to meet electricity demand of 308bn KWh, compared with 71.7bn KWh in 1993. Total energy investment is estimated at \$32bn over the next 10 years, two thirds of which will be in power plant and the rest in distribution and transmission lines and resource development.

Energy experts say Turkey will need 1m kW additional capacity every year to meet the demand to the turn of the century and 2m kW annually after that date.

The energy ministry has drawn up plans for 24 lignite fired units, with total generating capacity of 9,788m kW; 27 natural gas fired units generating 12,150m kW; 21 coal-fired plants, with 10.5m kW; 2 nuclear power plants with 2,132m kW and 113 Hydro-Electric units with capacity of 14.4m KWh of electric energy.

The plan represents significant opportunities for foreign companies wishing to supply generation equipment.

In Turkey, the only locally manufactured equipment are hydraulic type turbines for power units of up to 60,000 kW, and small boilers and generators. In 1993, an estimated 90 per cent of the \$380m spent on electrical equipment was imported from foreign companies. An industry report by the US embassy in February, estimated that equipment demand would grow by 9 per cent over the next 3 years.

Turkey's main constraint is finance, at a time when access to debt markets has been

closed off by a series of downgradings by US credit rating agencies.

One possible solution is Build Operate and Transfer (BOT) private projects, which can be used to fund large scale public infrastructure without affecting the country's debt profile. First championed by the former Turkish president Turgut Ozal, BOT schemes allow private developers to recover their costs for building a plant through operating it for a fixed period, before handing it back to the state.

The problem is how to invest in new capacity while adhering to foreign debt ceilings

The argument in favour of BOT schemes is that they encourage project discipline, in that the financial risks are taken by the developer, rather than the state, and that project overruns delay the start of the developer's recovery of costs. The one grey area is what happens when, for reasons beyond the developer's control, the project has to be abandoned.

The government is considering proposals from a number of consortia. Enron of the UK and the Wing Group, the small US power developer, are in partnership on a \$600m dual fired gas and oil plant at Marmara Ereğli, east of Istanbul.

A consortium led by ABB, the Swiss-Swedish power giant, is considering a similar scheme for the Marmara region. Trinity Partners have proposed a coal-fired plant in Anatolia.

Meanwhile Philipp Holzmann of Germany is negotiating terms for a hydro-electric power station on the Euphrates river at Sirecik, in eastern Turkey, near the Syrian border. In total the BOT proposals represent some 10m kW of new capacity.

"There is a great need for these projects," says Mr John Wing of the Wing Group.

But all three Turkish BOT projects have met resistance from Tek, whose role the private developers will replace.

The Enron-Wing consortium has linked up with Midland, the privatised UK utility, to deal with the "operating" part of the franchise, a pattern repeated by a number of the UK's privatised utilities as the new companies seek to maximise their "unregulated" profits. It has also signed an energy supply contract with Botas, the gas pipeline company.

However, the real sticking point is over the payment obligations of Tek, which will take the power produced by the project. The consortium wants the treasury to guarantee these amounts. There is also some concern over what would happen in the event that Tek is privatised.

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A WORLD OF COMFORT

NEWS: INTERNATIONAL

Central Committee calls for faster industrialisation and modernisation

Vietnam admits an equality gap

By a correspondent in Hanoi

Vietnam's ruling Communist Party has admitted what economists say could be the biggest threat facing the country's recent rapid economic growth: a yawning gap between the urban and the rural economy.

A resolution issued by the party's Central Committee calls for faster "industrialisation and modernisation", a catchphrase reflecting growing concern over the country's ability to reach the ambitious target of doubling per capita income by 2000.

The phrase is understood to mean an increased emphasis on developing Vietnam's state manufacturing sector, much of which has limped along on dwindling state subsidies since economic openness, or doi moi

(renovation), was officially sanctioned in 1986.

The emphasis appears to be on attracting the country's vast rural workforce into the sector.

The resolution added that Vietnam was now facing "acute difficulties" because of low economic growth, loose control of inflation, limited funding sources and increased competition, reflecting increased candour in the way policymakers are dealing with the country's progress to a market economy.

Known to avoid the chaos that engulfed many of the former eastern bloc countries' attempts at fast-track private sector growth, Vietnam's leaders are steering policy towards placing crucial state industries into commanding positions in

the economy while encouraging foreign investment and private-sector growth.

Despite an impressive list of economic achievements, including attracting \$9.5bn in foreign investment in the past five years and sharply reducing inflation, the results of economic reform have so far been felt mainly in the capital, Hanoi, and the southern industrial centre Ho Chi Minh City.

In both cities, a growing class of new rich is enjoying increasing spending power. But they account for only 20 per cent of the population. The rest are still locked into the low-paying agricultural sector, where unemployment is increasing. "The real issue is to get people out of the agricultural sector and into industry," a Washington-based official at

the World Bank's agricultural division said.

Local press reports say that last year industry accounted for only about 20 per cent of gross national product.

Figures released last month by the country's national statistical bureau disclosed rapid growth in foreign trade but also a budget deficit of about \$200m (£133m) as imports have overtaken exports.

Although national per capita income is often quoted as \$320, many economists agree that it would be more realistic to make a distinction between Ho Chi Minh City, where the figure is unofficially put at about \$500, and the countryside, where the figure of \$220 is said to be more accurate.

The Central Committee's resolution said Vietnam must create

the conditions necessary for private business to invest in production and joint ventures and co-operation with the state-owned economic sector.

"We must continue to renovate economic policies, especially the financial and monetary policies, in order better to create, mobilise and effectively use capital, and to strive to increase gross investment accumulation rate to around 25-30 per cent of the country's GDP," the resolution said.

Only two months ago, in his closing speech to the National Assembly, the country's rubber-stamp legislative body, Prime Minister Vo Van Kiet began his remarks by dwelling more on what the economy had failed to achieve than the usual glowing catalogue of achievements.



A Beijing resident at a photographic exhibition yesterday in honour of Deng Xiaoping

More oil losses as Lagos strike turmoil worsens

By Paul Adams in Lagos

Further losses in oil production and the continued closure of the main commercial banks yesterday hindered the plan by Nigeria's military regime to break the six-week oil industry strike and get the economy back to normal.

Anglo-Dutch Shell, which operates about half of the country's 2m b/d oil industry, announced yesterday the temporary closure of its Forcados terminal, which exports about 500,000 b/d. Shell has not disclosed how much of the other 500,000 b/d produced at its Bonny Terminal is lost because of political strikes by the two oil workers' unions, Nupeng and Pengassan, aimed at ending military rule and installing jailed opposition leader Mr Moshood Abiola as president.

But world oil prices, heavily influenced in recent weeks by events in Nigeria, fell sharply yesterday despite closure of the Forcados terminal. The price of the benchmark Brent Blend for October fell to \$15.75 in late London trading yesterday, 50 cents down on its close last Friday.

Traders say the fact that Nigerian oil exports have been maintained despite production cuts associated with the strike has reduced market fears of supply shortages. World supplies of high-quality light crude oils, such as those produced in most Nigerian fields, are currently plentiful because of relatively high production levels in the North Sea.

Mr Don Eisele, oil minister, said yesterday that many of the oil workers had reported to work after being ordered back

to their jobs by the military ruler, Gen Sani Abacha.

Oil industry officials said, however, it was too early to assess if the strike had been broken.

The biggest refinery, Port Harcourt, closed more than a week ago. The next biggest, Warri, has not yet been restored after an overhaul begun in March and the smaller Kaduna refinery can produce little except fuel oil, of which there is a surplus since many factories are shut.

The closure for the past month of some of the banks is also causing the government concern. Mr Aminu Saleh, secretary to the government, warned banks yesterday that unless they opened by tomorrow he would "review their licences".

Instructions from the government to the four or five biggest commercial banks, with a wide network of branches throughout Lagos, failed to persuade them to open their doors to the public yesterday.

Many companies pay salaries through these banks and some employees have been unable to get their July pay. The big commercial banks, which were all privatised last year, hold most of the banks' deposits and if the government closed them it would paralyse the banking system.

The banks, which are not releasing cash to the public, took part yesterday in the latest auction of foreign exchange in which \$100m will be sold to manufacturers and exporters.

The acute shortage of foreign currency in Nigeria has reduced the auctions from fortnightly to once a month.

Efforts to curb CO₂ emissions 'lagging'

By Frances Williams in Geneva

Efforts by the industrialised countries to stabilise their carbon dioxide emissions at present levels will have only a minor effect on the build-up of CO₂ concentrations in the earth's atmosphere and so on global warming, a leading climate change scientist warned yesterday.

Prof Bert Bolin, chairman of the Intergovernmental Panel on Climate Change (IPCC), said that even to stabilise CO₂ concentrations at twice present levels would require all countries, developed and developing, to cut emissions below 1990 levels.

Stabilisation at 1990 levels by the industrialised nations alone, in line with commitments under the United Nations climate change convention, would reduce accumulated emissions over the next century by less than 10 per cent. "This indicates that current commitments are not sufficient to stabilise atmospheric concentrations," Prof Bolin said.

He was addressing representatives of about 150 governments at the start of a meeting intended to prepare for the first ministerial conference on the climate change treaty in Berlin next spring.

One of the main issues the meeting must consider is whether to strengthen the treaty by proposing a new protocol restricting emissions of carbon dioxide and other greenhouse gases.

Berlin conference proposals for treaty amendments would have to be put forward by the end of September.

Australia drops plan to privatise shipping line

By Nikki Tait in Sydney

Australia's federal government yesterday ditched plans to privatise the Australian National Line (ANL), claiming the state-owned shipping line was in a poor financial state and would not attract a buyer interest.

Mr Laurie Brereton, transport minister, said the decision was supported by a private report, conducted by Salomon Brothers Australia and Price Waterhouse, for the government.

"I don't see privatisation as being in any way a realistic proposition either now or in the foreseeable future," he commented.

While ANL has been consistently loss-making in recent years, the move also has heavy political overtones.

The Labor government's current privatisation plans, which encompass the sale of the remaining 75 per cent stake in Qantas, the international airline, and the 22 Commonwealth airports run by the Federal Airports Corporation, have been coming under heavy attack from left-wing sections of the party.

This issue is widely expected to dominate the Australian Labor Party's national conference to be held in Hobart next month.

But by making concessions now over the ANL privatisation, the government may consider its prospects of pushing through the airports sale will be enhanced.

The government first mooted the sale of 49 per cent of the shipping line business in 1991.

Adoring press turns blind eye to Deng's birthday

By Tony Walker in Beijing

China's official media went into overdrive yesterday in praise of Mr Deng Xiaoping, the country's senior leader who turned 90 but nowhere in thousands of characters published about the ailing and reclusive Mr Deng was any mention made of his birthday.

People's Daily, the Communist party newspaper, led a chorus of praise in a front-page editorial which described Mr Deng as "the general designer of our country's socialist reforms, opening and construction of a modern society."

"We should read comrade Deng Xiaoping's works carefully, attentively and repeatedly," the paper said.

China's media gave more weight and prominence to Mr Deng's contribution to the country's reform effort this year than in previous years. Western officials attributed

this to a recognition that Mr Deng may not have much longer to live, and also to the fact of his having achieved the "round figure" of 90.

Mr Deng's remarkable life, which began in a remote county in China's south-west Sichuan province, spanned an era of great turbulence in Chinese history. As a leader of the communist revolution, he was at the centre of stirring events for more than half a century.

No mention was made in the Chinese press yesterday of Mr Deng's whereabouts on his birthday: it is assumed he is in Beijing since he is now too feeble to enjoy his favourite summer pastime of swimming in the sea at a beach resort east of the capital.

The blanket media coverage of Mr Deng's achievements, with its emphasis on his historical contribution, appeared to be preparing the ground for "canonisation" on his death as

one of the giants of modern Chinese history.

"Our party's flag, having been inscribed with 'Marxism and Leninism' and 'Mao Zedong Thought', is now enhanced by 'Deng Xiaoping's theory of Building Socialism with Chinese characteristics'." People's Daily commented.

"The 19th century was the one during which the Chinese nation declined, the 20th century was one when the Chinese nation fought and strove and the 21st century will be the one when the Chinese nation will be revitalised fully," the paper added.

Apart from newspaper commentaries, Mr Deng's birthday was also marked by photographic exhibitions and examples of his calligraphy. China's senior leader may have been out of sight on his birthday, but the Chinese propaganda machine has not allowed him to be out of mind.

Ex-prisoner challenges HK election law

By Louise Lucas in Hong Kong

Mr Lau San-ching, a 41-year-old social worker, has thrown an embarrassing spanner into the workings of Hong Kong's first set of fully democratic elections.

Earlier this month his application to stand for the coming District Board Elections was rejected on the grounds that he was not "ordinarily resident" in Hong Kong for the 10 years preceding the election, as stipulated under the colony's electoral laws.

Mr Lau, who was yesterday granted leave to appeal against the returning officer's decision, spent much of the past 10 years in China as a political prisoner. His absence from Hong Kong was not voluntary, but puts him in the same category as those who have gone

overseas to study or work.

In an open letter to Ms Anson Chan, acting governor during the absence of Mr Chris Patten, the governor, Mr Lau wrote: "It is not just a twist of fate that I found myself spending 10 of the best years of my life in a Chinese jail. Instead of following the trendy pursuit of money, power and fame, I discovered that my calling in life was in the establishment of democracy, respect for human rights, and restoration of law and order in China. It was with these objectives that I clashed with the Chinese authority; this eventually resulted in loss of my freedom for 10 years."

The government is adamant that the rule of law must apply. "We have rule of law here, and if people want to challenge that, we have an independent judiciary. Bureaucrats and politicians

have to make decisions based on the law, taking legal advice where necessary, and that's what we have done in this case," a government official said.

Further, the government believes that even assuming any amendments to the electoral laws were necessary, these should not be made while an election is going on as that would be unfair: any change will bring potential losers as well as potential gainers.

The appeal hearing on Friday may change that: yesterday's leave to appeal was supplemented with a pledge to do everything to put Mr Lau's candidature on a level footing with his fellow contestants, who will have a head start in their campaigning.

Mr Lau's lawyers are arguing over the interpretation of "ordinarily resident". During his involuntary stay in

China, he kept his home address in Hong Kong; he did not rent a flat or take a hotel room in China; and he returned to Hong Kong immediately on his release.

His lawyers will claim the residency rule is against the Bill of Rights, which grants every permanent resident the right and opportunity of access to public service in Hong Kong without distinction on the basis of race, sex, political opinion or any other prejudice.

They will also attempt to prove a more complex legal point - that those who drafted the residency clause did not have legal power to make such a requirement. There is no such requirement in Britain.

The district board elections, on September 18, will mark the first time all 348 seats go up for direct election.

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INTERNATIONAL ECONOMIC INDICATORS: BALANCE OF PAYMENTS

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UNITED STATES						JAPAN						GERMANY					
Exports	Imports	Trade balance	Current account balance	US exchange rate	Effective exchange rate	Exports	Imports	Trade balance	Current account balance	US exchange rate	Effective exchange rate	Exports	Imports	Trade balance	Current account balance	US exchange rate	Effective exchange rate
1985	279.8	-174.2	-164.5	0.7823	100.0	230.8	76.0	94.5	100.0	100.0	242.7	33.2	21.7	2.2260	100.0	100.0	100.0
1986	230.9	-140.8	-183.7	0.9836	90.3	211.1	98.2	87.0	105.1	124.4	246.3	63.1	40.3	2.1279	100.0	100.0	100.0
1987	220.2	-131.8	-144.8	1.1541	70.3	197.3	88.1	75.3	106.58	133.2	254.3	55.8	38.8	2.0770	115.3	100.0	100.0
1988	272.5	-102.8	-106.3	1.1533	65.0	218.8	80.7	85.7	101.51	147.3	272.5	67.5	42.9	2.0719	114.6	100.0	100.0
1989	330.2	-99.3	-93.3	1.1017	68.4	245.5	70.5	52.6	101.07	141.9	370.3	65.3	52.3	2.0681	111.1	100.0	100.0
1990	308.0	-79.3	-72.0	1.2745	65.1	220.0	50.1	28.2	103.94	126.0	324.4	51.5	36.9	2.0537	119.1	100.0	100.0
1991	340.5	-83.5	-5.9	1.2381	64.5	247.4	83.1	82.9	108.44	137.0	327.4	11.2	-15.7	2.0415	117.7	100.0	100.0
1992	345.9	-65.2	-42.1	1.2957	62.9	254.8	101.7	90.0	104.05	142.9	330.6	16.8	-17.0	2.0187	116.1	100.0	100.0
1993	397.3	-98.7	-98.6	1.1705	65.6	300.0	120.9	111.2	103.31	173.8	323.0	30.8	-17.1	1.9337	124.6	100.0	100.0
3rd qtr.1993	99.6	-27.5	-24.3	1.1443	65.4	79.1	32.2	28.2	120.89	183.7	61.0	5.7	-3.0	1.9190	123.9	100.0	100.0
4th qtr.1993	108.9	-20.0	-28.9	1.1398	64.4	75.8	30.3	26.9	123.20	180.2	62.7	9.5	-3.3	1.9161	124.8	100.0	100.0
1st qtr.1994	105.9	-28.9	-28.4	1.1244	66.8	81.1	32.8	30.1	120.95	182.9	79.8	8.5	-4.6	1.8370	122.4	100.0	100.0
2nd qtr.1994	107.7	-32.8	-32.8	1.1008	65.3	81.7	31.8	29.5	119.94	187.1				1.9276	123.5	100.0	100.0
July 1993	32.8	-8.5	n.a.	1.1348	65.5	26.1	11.3	6.7	122.24	181.1	26.0	2.3	-3.9	1.9483	122.0	100.0	100.0
August	33.9	-8.9	n.a.	1.1281	65.7	29.5	10.5	8.1	116.79	188.2	27.5	1.5	-3.5	1.9081	122.6	100.0	100.0
September	32.9	-8.0	n.a.	1.1728	64.7	25.9	10.7	9.4	123.83	181.8	27.5	1.9	-1.6	1.8996	126.1	100.0	100.0
October	34.5	-8.3	n.a.	1.1597	65.5	24.8	9.8	8.9	124.03	180.4	27.7	3.5	-2.7	1.8995	126.2	100.0	100.0
November	35.5	-8.6	n.a.	1.1292	65.6	25.1	9.8	8.8	121.86	181.8	27.8	2.7	-0.9	1.9182	124.5	100.0	100.0
December	36.9	-8.9	n.a.	1.1287	67.0	25.7	10.6	9.2	123.92	178.5	27.2	3.3	-1.8	1.9306	126.3	100.0	100.0
January 1994	35.2	-8.7	n.a.	1.1139	67.5	27.1	11.3	11.2	124.03	177.0	25.9	3.3	-1.3	1.9415	122.2	100.0	100.0
February	34.1	-10.8	n.a.	1.1184	65.7	26.9	11.3	10.1	118.77	185.2	27.2	3.0	-2.5	1.9387	121.8	100.0	100.0
March	37.5	-8.4	n.a.	1.1410	68.1	27.3	10.2	8.8	120.04	185.3	26.7	2.2	-0.7	1.9299	123.2	100.0	100.0
April	38.1	-10.8	n.a.	1.1385	68.0	27.8	11.3	10.9	117.79	186.6	29.2	5.1	-0.5	1.9335	122.8	100.0	100.0
May	38.3	-11.1	n.a.	1.1822	65.8	28.1	9.8	8.8	120.67	188.2	30.6	2.8	-3.0	1.9296	122.5	100.0	100.0
June	38.2	-11.2	n.a.	1.1908	64.8	28.0	10.8	8.9	121.06	186.6				1.9228	124.3	100.0	100.0
FRANCE						ITALY						UNITED KINGDOM					
Exports	Imports	Trade balance	Current account balance	US exchange rate	Effective exchange rate	Exports	Imports	Trade balance	Current account balance	US exchange rate	Effective exchange rate	Exports	Imports	Trade balance	Current account balance	US exchange rate	Effective exchange rate
1985	133.4	-3.6	-0.2	6.7942	100.0	103.7	-18.0	-5.4	1443.0	100.0	132.4	-5.7	3.8	0.5890	100.0	100.0	100.0
1986	127.1	0.0	3.0	6.7948	102.8	98.4	-2.5	-1.4	1461.8	101.4	106.8	-14.2	-1.3	0.8708	91.6	100.0	100.0
1987	158.3	-4.6	-3.7	6.8265	103.0	101.7	-7.5	-2.1	1494.2	101.2	112.3	-16.4	-7.1	0.7047	80.1	100.0	100.0
1988	141.9	-8.9	-3.4	7.0554	100.8	108.3	-9.9	-9.0	1536.8	97.5	109.9	-32.9	-25.0	0.8643	95.5	100.0	100.0
1989	182.8	-3.3	-3.6	7.0189	98.8	127.8	-11.2	-17.0	1509.2	98.6	137.0	-36.7	-33.5	0.8726	92.6	100.0	100.0
1990	170.1	-7.2	-7.2	6.8202	104.8	133.9	-8.5	-18.0	1523.2	100.8	142.5	-29.3	-25.6	0.7150	91.3	100.0	100.0
1991	176.4	-4.2	-9.9	6.8643	102.7	137.0	-10.3	-17.7	1531.3	99.9	147.7	-14.7	-16.9	0.7002	91.7	100.0	100.0
1992	182.6	-4.8	-2.9	6.8420	106.0	137.9	-9.0	-20.6	1591.5	95.7	145.9	-16.2	-14.3	0.7359	98.4	100.0	100.0
1993	177.8	13.9	8.9	6.8261	108.3	144.3	17.9	8.2	1636.7	79.8	168.1	-17.0	-13.7	0.7780	80.2	100.0	100.0
3rd qtr.1993	45.0	3.8	3.5	6.8508	108.4	34.2	6.1	3.2	1613.0	79.8	40.2	-4.1	-2.6	0.7608	81.0	100.0	100.0
4th qtr.1993	45.8	4.5	3.5	6.8431	107.3	40.9	7.1	3.9	1679.8	77.0	40.8	-4.4	-2.4	0.7636	81.1	100.0	100.0
1st qtr.1994	44.5	2.4	2.3	6.8267	108.0				1682.8	78.2	42.4	-3.3	-0.7	0.7554	81.0	100.0	100.0
2nd qtr.1994				6.5987	108.0				1681.2	77.8				0.7716	81.0	100.0	100.0
July 1993	15.1	1.57	1.27	6.8290	107.0	14.7	4.4	2.8	1796.8	80.8	13.1	-1.8	n.a.	0.7585	81.0	100.0	100.0
August	14.9	0.74	1.27	6.8761	106.9	7.8	0.8	0.3	1804.2	78.7	13.8	-0.5	n.a.	0.7545	81.0	100.0	100.0
September	15.1	1.52	1.30	6.8585	108.0	12.0	0.6	0.1	1805.9	78.9	13.2	-1.1	n.a.	0.7635	81.0	100.0	100.0
October	15.0	1.82	1.17	6.8831	108.3	13.2	2.3	2.0	1864.8	78.2	13.6	-1.8	n.a.	0.7685	81.0	100.0	100.0
November	16.0	1.15	0.02	6.8827	108.6	12.4	1.7	1.8	1890.7	77.0	13.3	-1.6	n.a.	0.7620	81.0	100.0	100.0
December	15.9	2.03	2.28	6.9026	108.2	15.2	3.1	0.4	1903.7	78.1	13.6	-1.7	n.a.	0.7573	81.0	100.0	100.0
January 1994	16.1	0.90	2.44	6.8586	107.9	10.1	0.7	0.8	1825.8	78.2	14.4	-1.2	n.a.	0.7657	81.0	100.0	100.0
February	16.0	0.73	-0.64	6.5905	107.6	12.8	1.6		1885.9	79.4	14.1	-1.2	n.a.	0.7450	81.0	100.0	100.0
March	15.5	1.28	0.51	6.7882	108.3				1890.1	79.9	14.0	-1.5	n.a.	0.7649	81.0	100.0	100.0
April	15.7	1.18	0.07	6.8540	107.1				1880.1	79.0	14.3	-1.0	n.a.	0.7873	81.0	100.0	100.0
May	16.3	1.15		6.5887	107.9				1852.9	79.2	14.1	-1.3	n.a.	0.7733	81.0	100.0	100.0
June				6.5688	108.6				1880.5	77.1				0.7733	81.0	100.0	100.0

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Tuesday August 23 1994

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3rd International Conference
Washington DC
19-20 October 1994
Telephone 0663 744409
for details

IN BRIEF

Walt Disney joins satellite venture

Walt Disney yesterday announced its first significant new media investment in Europe - a joint venture with CLT Multi Media, the Luxembourg-based international broadcaster. The two groups plan to launch a German satellite television channel specialising in family entertainment in January. Page 16

CME seeks strength

The Chicago Mercantile Exchange is close to making a fundamental shift in governance that for the first time would give its member banks and other financial traders a free hand in guiding its future. Page 16

Banesto sees 'positive' result

Banco Repañol de Crédito (Banesto) yesterday attempted to reassure shareholders it was on a stable footing, eight months after a summary intervention by the Bank of Spain. Page 16

Repsol ahead at Pta79.85bn

Repsol, the main Spanish oil group, reported a 15 per cent increase in pre-tax profits for the first half of the year to Pta79.85bn (\$514m) compared with Pta66.61bn at the same time last year. Page 16

Brazil's airlines plan defence

Brazil's three main airlines are cutting costs and seeking international alliances in a drive to counter the harsh economic environment. The carriers have been hit by weak demand and pressure on revenues through increased domestic competition. Page 17

Goodman sets date for showdown

Goodman Fielder, the beleaguered Australian food company, yesterday said it would hold an extraordinary general meeting on October 13, at which shareholders would be able to vote on boardroom changes. Unhappy investors are recommending the replacement of two executive directors at Goodman. Page 18

BHP secures Chinese exploration deal

Broken Hill Proprietary, the Australian steel and resources group, said yesterday it had signed an agreement with the China National Offshore Oil Corporation, to explore for oil and gas in the Pearl River Basin. Page 18

MTM plans £16.7m expansion

MTM, the chemicals company which almost collapsed two years ago, yesterday announced details of a new acquisition strategy aimed at rebuilding the group. It is planning to spend up to £16.7m (\$35.7m) to establish three or four core businesses. Page 20

Meyer shake-out continues

The management shake-out at Meyer International is continuing with the announcement yesterday that Mr Richard Reynolds is resigning as chairman and managing director of Jewson, Britain's biggest builders' merchants chain and the company's largest subsidiary. Page 20

Hibernian reports first-half loss

Hibernian Group, the third largest insurance company in the Irish Republic, reported a pre-tax loss of £26.4m (\$9.43m) for the first six months of 1994, against restated profits of £51.5m. Page 20

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Chief price changes yesterday

FRANKFURT (DEM)	PARIS (FF)
Deutsche Bank	114 + 1/4
Deutsche Bank	114 + 1/4
Deutsche Bank	114 + 1/4
Deutsche Bank	114 + 1/4
Deutsche Bank	114 + 1/4
Deutsche Bank	114 + 1/4
Deutsche Bank	114 + 1/4
Deutsche Bank	114 + 1/4
Deutsche Bank	114 + 1/4
Deutsche Bank	114 + 1/4

NEW YORK (DOLLARS)	LONDON (PENCE)
Deutsche Bank	254 + 25
Deutsche Bank	254 + 25
Deutsche Bank	254 + 25
Deutsche Bank	254 + 25
Deutsche Bank	254 + 25
Deutsche Bank	254 + 25
Deutsche Bank	254 + 25
Deutsche Bank	254 + 25
Deutsche Bank	254 + 25
Deutsche Bank	254 + 25

Citic Pacific rises 46% at interim

By Louise Lucas in Hong Kong

Citic Pacific, the Hong Kong-listed arm of the Beijing foreign investment company, Citic, yesterday topped market expectations when it announced a 46 per cent surge in net profits to HK\$1.2bn (US\$155m) for the first half of 1994, up from HK\$802m.

In April, the group issued HK\$3.82bn of shares, partially to finance tunnel and property acquisitions. As a result earnings per share rose by a more modest 30 per cent to 62.3 cents compared with 47.8 cents last year.

Turnover crept up 5 per cent to HK\$6.5bn. Shareholders are to receive a dividend of 13 cents a share, up 3 cents.

Profits were lifted by the group's long-term investments. Citic holds 12 per cent of Hong Kong Telecom, the colony's monopoly supplier of fixed-line services, and 12.5 per cent of Cathay Pacific, the international airline which last week announced an 18 per cent rise in earnings.

It is the first time a full six months' contribution has come in from Hong Kong Telecom at the interim stage.

Dragonair, the Asian airline in which Citic has a 46 per cent

stake, made progress as additional flights were added to main destinations.

Contrary to market expectations of a sluggish year for its motor trading business, Mr

Larry Yung, chairman, said margins were maintained at last year's level, assisted by big sales in Honda, which was the

best selling brand in the Hong Kong market in the first half.

Citic has recently acquired for HK\$3.4bn a 50 per cent stake in

Discovery Bay, a self-contained community on one of Hong Kong's outlying islands. Mr

Yung said an application had been made by co-owner Hong Kong Resort Company, to the

government, to build additional floor area, a new pier and a tunnel linking Discovery Bay to the

airport road system.

"Directors of Citic Pacific will be actively involved in discussions with the government on this matter which is of considerable strategic importance," he said.

On infrastructure, an important thrust of Citic's strategy in the years ahead, the first two

360MW generators of its 56 per cent-owned Ligang Power Station are now fully operational.

Installation of the next two generators is planned to start shortly, with completion of the first scheduled for late 1997.

Citic has invested in a 25 per cent interest in Phase I of the

Trading Power Station with two 360MW generators, the first of which is expected to start commercial operation by the end of next year.

Mr Yung forecast that full-year earnings would show a "substantial increase" on 1993.

Chairman says cost-cutting and foreign expansion will assist return to profit

Mannesmann cuts first-half loss to DM27m

By Christopher Parkes in Frankfurt

Economic recovery, restructuring and the first trickle of profits from its new telecommunications division reduced Mannesmann's first-half losses to DM27m (\$17.6m), from DM467m (\$317.6m), from DM467m.

Forecasting a return to profit for the full year after a 1993 deficit of DM513m, Mr Joachim Fünk, chairman, said yesterday that more cost-cutting was needed and the group planned to expand foreign manufacturing "rapidly".

"The economic recovery does not mean Germany's structural problems are resolved," he said in a letter to the workforce and shareholders. In the light of international price pressures, German costs were still too high.

Total capital spending of DM761m was 6 per cent higher than in the first six months of

last year. The domestic share fell 3 per cent, while investment abroad was up 50 per cent.

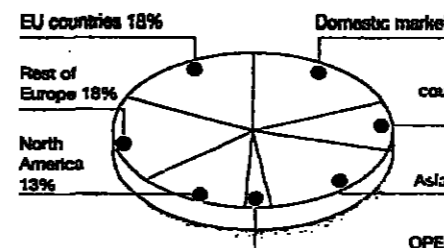
The group reported a 12 per cent rise in exports to DM4.7bn and a 17 per cent jump in turnover to DM4.7bn at foreign subsidiaries. Group sales increased 10 per cent to DM14.2bn.

The reduction in losses was helped by unspecified first-time profits from the D3 mobile telephone network, which incurred a DM240m deficit last year after launch costs. The network had 680,000 subscribers at the end of June, compared with 300,000 a year earlier, and a further 20,000 were signed up in July.

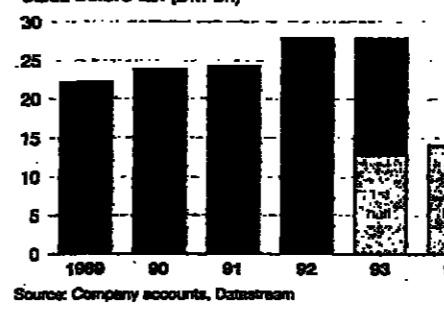
Although no details were given, restructuring costs were also likely to be markedly lower than last year, when heavy redundancy and early retirement payments boosted the annual total to DM515m.

Mannesmann turns the corner

Orders received in 1993, by markets (%)

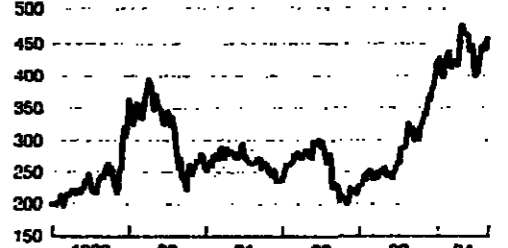


Sales before tax (DM bn)

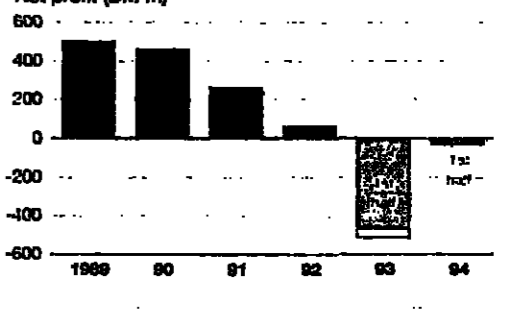


Source: Company accounts, Datascan

Share price (DM)



Net profit (DM m)



Vehicle components and trading activities returned to the black. Tubes manufacture broke even in the review period, while core heavy engineering and the relatively small electrical business were still making losses.

Although the value of plant construction contracts was down, group-wide incoming orders rose 19 per cent to almost DM17bn. Recovery in the international automotive industry pushed sales up 10 per cent while new orders

rose 18 per cent.

Continuing job cuts in all divisions except telecoms and trade had reduced the workforce by 4 per cent and personnel costs were unchanged at DM4.8bn.

Lex, Page 14

LDOS buys slice of US long-distance calls

By Patrick Harverson in New York

Williams Companies, the Oklahoma-based gas pipeline operator, has agreed to sell its WITel long-distance telephone business for \$2.5bn to LDOS, the acquisitive US telecommunications group.

Three months ago Williams rejected LDOS's initial bid of \$2bn but yesterday Mr Keith Bailey, the company's chairman, said the revised offer from LDOS represented a "full and fair value" for WITel.

The takeover, subject to regulatory approval, will create a long-distance carrier in the US with the size to compete

with AT&T, MCI and Sprint, the three dominant operators in the industry. On completion, LDOS will control about 4 per cent of the \$65bn US long-distance market, compared with a 10 per cent share for Sprint, 20 per cent for MCI, and 80 per cent for AT&T.

The deal is part of a gradual consolidation of the US telecoms industry, which is undergoing radical change due to the blurring of boundaries between long-distance and local carriers, and between the sector and the cable television and computer industries.

LDOS said it had secured \$3.25bn in

bank loans from a syndicate, led by NationsBank of North Carolina, to pay for the all-cash acquisition of WITel and to fund a refinancing of some existing debt.

The purchase of WITel is the second big deal completed by LDOS this month.

Three weeks ago it agreed to buy IDB Communications of California, a national satellite-based phone carrier, for \$985m.

Based in Mississippi, LDOS buys access to long-distance lines in bulk and resells the access at a profit. With revenues of \$1.14bn last year, it has the fourth largest long-distance customer base in the US, and specialises in serving small to medium-

sized businesses, mainly in the south-east, south-west and Midwest.

WITel, which provides companies and other phone carriers with voice and data transmission services via its 11,000-mile advanced national fibre optic network, specialises in the same area of the business market. Last year, WITel reported an operating profit of \$39.7m on revenues of \$358m.

Williams expected to realise an after-tax gain of \$950m from the sale and would probably use the proceeds to invest in the energy business. It also plans to buy back up to \$800m of its own stock.

Charter raises bid to win over Esab's dissident investors

By Hugh Carnegie in Stockholm

Charter, the UK industrial group, yesterday broke the deadlock in its stalled bid for Esab, the world's leading welding equipment supplier, raising its bid by £20m to £280m (\$440m) and winning the acceptance of the key Swedish institutional shareholders that had rejected the original offer.

The move brought to 84 per cent the share of Esab's capital and voting rights pledged to Charter and is almost certain to ensure the UK company wins the 90 per cent acceptance it needs to achieve a complete takeover.

Charter made the new bid of SKr380 per A and B share, up from the original bid of SKr345, unconditional.

The first offer, made at the end of June, was recommended by the Esab board and accepted by the Esab family, the Wallenberg family industrial group that is Esab's controlling shareholder. But it was blocked when five institutions holding some 20 per cent of the voting capital rejected it as underpriced following a sharp rise in the Esab share price to as much as SKr385 and a big increase in the company's profits forecast.

Charter, with 54 per cent of Esab secured, initially balked at raising an offer which had initially represented a 20 per cent premium to the market price. But Mr Jeffrey Herbert, Charter's chief executive, said yesterday it

was not satisfied with a simple majority shareholding. "At the end of the day we are far happier with 100 per cent ownership. That is why I have increased the offer - and the performance of the business has fully justified the offer we have now made."

The new deal was worked out last week between Charter and the 4th Fund, a state pension fund which was the biggest shareholder after Esab's family.

Other leading institutions also accepted the new terms. Charter, which is also assuming £130m in debt, will part-fund the deal through a £83m one-for-four rights issue at 560p per Charter share.

All Esab shareholders will benefit from the new offer, adding SKr150m to the SKr130m incentive will receive for its 48 per cent stake. The acquisition of Esab, which had a turnover in 1993 of SKr7bn, will more than double Charter's size and add a fourth leg to its interests in building materials, coal and rail track equipment.

Trade unions at Esab campaigned against Charter, portraying it as a foreign predator that would run down Esab's operations in Sweden. But Mr Herbert said yesterday Charter intended to keep the present management in place. "Esab is becoming part of a group that is used to running international businesses and which in the last four years has invested £150m in growing businesses," he said.

Pillar marks debut with £60m spree

By Simon Davies in London

Pillar Property Investments, which started trading in London only eight days ago, has lined up £60m of acquisitions including a Northampton shopping centre and the office complex that houses the Mermaid Theatre, in London's Blackfriars district.

The management - which built up Arlington Securities, sold to British Aerospace in 1989 - came into Pillar in May.

Pillar is paying £28.5m to the Provident Mutual for the 254,000 sq ft shopping centre. However, the Provident Mutual can with-

draw if Pillar does not also complete the purchase of the Blackfriars properties by August 28 for about £30m.

Pillar would acquire the long lease on two office blocks at Numbers 1 and 2 Puddle Dock, occupied by RPMG Peat Marwick and Touche Renmant. It would also buy a sub-lease over the Mermaid Theatre.

Redevelopment of Puddle Dock would be complicated by the Mermaid. The City of London holds the freehold interest in the properties, while Gomba Holdings, owned by the Shamji family, has a long-term "pepper-corn

lease" on the unoccupied theatre. Mr Mould said Pillar had the option to redevelop on top of it, or could reach an arrangement with the Shamji family and the City of London involving relocation. The site is on the fringe of the City and would have to compete for tenants with other redevelopment projects, including Greycoat's Paternoster project in St Paul's.

The shopping project is being injected into Pillar's £250m joint-venture retail property fund with Canada's largest public pension fund, Caisse de Depot et Placement du Quebec.

This announcement appears as a matter of record only



de Zoete & Bevan acted as lead broker in the flotation of the 3i Group plc.



July 1994

Option of breaking with the old ways

Damian Fraser assesses the Mexican election victor's scope to curb the ruling party's powerful role



MEXICAN ELECTIONS

After his convincing victory in the Mexican presidential election on Sunday, Mr. Ernesto Zedillo now faces the daunting task of preparing, in little more than three months, for a presidency that is to stretch from December 1 until near the end of the year 2000. Officials close to Mr. Zedillo indicate that he will concentrate on three broad areas until December - improving relations with the opposition, setting in motion the reform of the governing Institutional Revolutionary Party, and establishing policies and picking ministers for the next administration.

None of the three will be easy. The opposition is bitterly disappointed at the results, and angry with a political system that strongly favours the ruling party. Previous attempts to reform the PRI have all failed, with the party apparently more resistant to change than any other institution in Mexico. Also, many of the reforms Mr. Zedillo has pledged - overhauling the legal system, modernising the police, among others - touch some of the most powerful and vested interests in the country.

But he will have some advantages. The election results reveal a depth of support for the PRI, even in a difficult political year for the party, and indicate broad if not enthusiastic endorsement for the way the country has been managed by President Carlos Salinas since 1988. With reports of electoral irregularities limited, Mr. Zedillo can claim a democratic mandate for his policies.

The immediate issue is to heal the wounds that the long and often bitter campaign generated. Mr. Cuauhtémoc Cárdenas of the leftist opposition and Mr. Diego Fernández de Cevallos of the centre-right opposition have both sharply criticised the manner of Mr. Zedillo's victory. They claim that the seemingly unlimited spending of the ruling party, the biased media coverage of the campaign, and support from the government indicate an unwillingness by the PRI to embrace democracy.

Mr. Cárdenas is Mr. Zedillo's most immediate threat, although the former's poor showing in the poll, and perception that irregularities were isolated, weakens his ability to protest. Yesterday, Mr. Cárdenas called his supporters into Mexico City's main square, with his party claiming widespread irregularities in the elections. However, even Mr. Fernández - whose National Action party has generally supported the PRI - withheld a full endorsement of Mr. Zedillo's victory yesterday morning, attacking what Mr. Fernández called a "profoundly iniquitous and profoundly unjust" political system.

Mr. Zedillo, in his victory speech, made conciliatory gestures. He asked his opponents to "emphasise what we have in common, without sacrificing differences." He told foreign correspondents late on Sunday: "My responsibility is not only for those who voted for the PRI but those who voted for other parties. Today, Mexico has a great opportunity to have an important agreement among all the political parties." It is still unclear what such an agreement might entail. Many people are so sceptical about the PRI that they will not believe Mr. Zedillo until he makes specific concessions to the opposition. Mr. Enrique Krauze, a prominent historian, said Mr. Zedillo "should interpret the election as a mandate to change the system from within." But, given his way of campaigning and previous record in government, "we have not had the slightest sign that makes us think he is willing to do this."

Mr. Zedillo may choose some members of the opposition to join his cabinet as a way to win their support. A plural cabinet would certainly fit with his pledge to represent all of Mexico, not just the PRI. But it remains to be seen what, if any, positions Mr. Zedillo offers - more important, the opposition response is also awaited. Mr. Zedillo's pledge to reform the PRI will almost certainly form part of his attempts to forge relations with the opposition. In remarkably direct language, Mr. Zedillo promised in the campaign to separate the PRI from the government, not to interfere in the ruling party when in office, and to propose democratic methods for the party to pick its candidates.

The country's poll results are still a source of political controversy, writes Stephen Fidler

Salinas hails 'clean' election

The final judgment on the propriety of Mexico's presidential and congressional elections is yet to emerge, but Mexico's two main opposition parties will enter a period of reflection, if not crisis, as a result. The government of President Carlos Salinas declared itself satisfied with the cleanliness of the elections.



We want to vote: Mexicans protest at the door of the electoral authority after a lack of ballot papers denied them a vote

in part because large discrepancies between exit polls and quick counts - from polling stations where voting had been observed - would have shown up attempts at centralised fraud.

Stocks rise but caution sounded

By Ted Berdack
In Mexico City

Mexican stocks surged an initial 1.6 per cent to a new six-month high in early trading yesterday in the wake of the ruling party's election victory. By mid-morning the IPC index was up 32.76, or 1.21 per cent, to 2,740.94. The peso also appreciated significantly against the dollar.

Party	% of vote
Institutional Revolutionary Party (PRI)	47.14
National Action Party (PAN)	31.35
Party of Democratic Revolution (PRD)	15.49
Others	6.02

* Preliminary results based on 15 per cent of votes counted

"Before proclaiming triumphs and losses, the legitimacy of the elections must be determined."

Despite the advances made in the Mexican electoral process, the elections are still a source of political controversy and agreement does not yet exist on the rules of the electoral game.

Electoral difficulties fall into three main areas: ■ Before polling day, These issues were summed up in a report published this month by the Carter Centre of Emory University in Atlanta. "An uneven playing field which limits the ability of all political parties to compete equitably remains of significant concern, especially regarding the continuing bias of media coverage, the high cost of advertising, campaign spending limits beyond the reach of any party except the PRI, and great disparities in financial resources."

Independent citizen magistrates appointed to oversee the elections have also criticised slow processing of complaints - most against the ruling Institutional Revolutionary Party (PRI) - about breaches in the electoral law.

■ Voting itself. The possibility of padding the electoral roll with dead or non-existent people - common in the past - is now small, according to the Carter Centre, but it said an independent audit did not address the issue of disenfranchisement of those who believed they were on the roll.

On the day, the main problem surrounded special polling stations, where those away from home or not on the polling station lists could vote. The number of ballot papers in each of these stations was limited to 300, as part of an agreement among all the parties to try to prevent double voting.

The question being asked by the opposition Party of Democratic Revolution and others is why were so many people on the electoral roll not on the lists of their local polling stations - forcing them to vote elsewhere.

Civic Alliance also reported that preliminary assessments suggested some 20 per cent of polling stations allowed voting by people not on the electoral list, and some 9 per cent allowed voting by people who had already voted. Some foreign observers travelling in the countryside around Mexico City reported that in some areas there was PRI intimidation of voters.

■ Fraudulent counting. This appears to have been much more difficult than in the past.

Evolution of the ruling political machine



1929

President-elect Álvaro Obregón murdered, preparing way for creation of new party that would accommodate different political interests

1946 PRI renamed Institutional Revolutionary Party (PRI) with military sector abolished; Miguel Alemán becomes president, spearheads economic modernisation, backing pro-business policies and encouraging foreign investment; he represents clear break from past revolutionary, hence decision to make the Revolution "institutional"

1958 Lázaro Cárdenas elected president, spearheads agrarian reform, becomes a nationalist hero

1968 Cárdenas renames PRI the Party of Mexican Revolution, organises it into four corporatist sectors - agrarian, professional, labour, military - turning it into an effective political machine

1988 Cuauhtémoc Cárdenas, son of Lázaro, breaks from ruling party to provide first serious challenge in presidential elections, winning 30 per cent of vote in elections marred by fraud; incoming President Carlos Salinas declares era of one-party rule is over

1994 PRI presidential candidate, Luis Donaldo Colosio, killed at campaign rally, the first such assassination since the murder of Avelino Obregón; PRI wins, with its new presidential candidate, Ernesto Zedillo, promising to democratise party structures

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1994 PRI presidential candidate, Luis Donaldo Colosio, killed at campaign rally, the first such assassination since the murder of Avelino Obregón; PRI wins, with its new presidential candidate, Ernesto Zedillo, promising to democratise party structures

Tempers fray as members yearn for a break

Senate puts off vote on Clinton crime bill

By George Graham
In Washington

Leaders in the US Senate had to put off any vote on the administration's crime bill yesterday, but at least began debate on the measure.

On Sunday night, the House of Representatives had voted to pass a slimmed-down bill with somewhat less money for crime prevention programmes than the White House wanted.

Some opponents of the legislation, led by Republican Senator Orrin Hatch of Utah, were still threatening to use the kind of obstructive procedural tactics that held the bill up in the House for two weeks.

Mr. Leon Panetta, the White House chief of staff, said it would be "a disgrace to the country" if the bill's opponents were to block the measure.

Senator George Mitchell, the Democratic majority leader, said such an attempt would be "unwise, both substantively and politically."

Senator Joseph Biden, who as chairman of the judiciary committee will manage the bill in the Senate, said that he believed the bill would be "awfully hard to stop," but he acknowledged that he faced a hard task in keeping together a

coalition of colleagues so as to maintain the 60 votes needed to overcome procedural obstacles.

"My dilemma is to get virtually all the Democrats and between five and eight Republicans," he said.

In the final House vote on Sunday night, the bill won the backing of 188 Democrats, 46 Republicans and the lone Congressional Independent, while 131 Republicans and 64 Democrats - mostly opponents of either gun control or the death penalty - voted against it.

Ever since President Bill Clinton's stunning defeat in a procedural vote in the House two weeks ago, the crime bill has overshadowed everything else for the administration.

White House officials said the first question on Vice-President Al Gore's lips, when he emerged from surgery on Sunday after injuring his Achilles tendon in a basketball game, was: "What's going on with the crime bill?"

Yesterday, crime pushed aside the Senate's snail-paced debate over healthcare reform, offering some members a welcome break from an argument that has already eaten one week out of the Congressional summer holiday.

That may leave very little time to complete the measure before members start fretting to go home to campaign for re-election in November.

House members, at least, were able to go home after a climactic vote on Sunday, but Senator Mitchell says he plans to keep the Senate in Washington until it has completed action on a healthcare reform bill, despite the advice of Senator Daniel Moynihan, finance committee chairman, that he allow senators to take a break.

"I will do whatever the leader wants done, but I think he might decide that we've talked enough, and we've listened to each other enough," he said on Sunday.

Congressman Robert Matsui appeared unimpressed by the Senate's feeling that it needed a rest.

"It's not as much a problem for them. As you know, they have older kids because they're older people," he said.

But, with tempers fraying on all sides, Mr. Mitchell and Mr. Clinton may conclude that, if they can bring the crime bill to passage, they would be better to leave the healthcare reform bill to one last, convulsive effort in September.

Former United Nations secretary general Mr. Javier Pérez de Cuéllar, pictured above amid supporters at the Villa El Salvador shanty-town near Lima, says he will make an announcement on September 23, on whether to stand in the Peruvian presidential election next April. Reuter reports from Lima. In a statement late on Sunday, Mr. Pérez de Cuéllar said he was seriously considering a request from several sectors of Peruvian society to run for president. "I will soon resume my pilgrimage around the country and, on September 23, I will formally announce my final decision," he said. Earlier on Sunday, he had told the meeting at Villa El Salvador that he was "an independent candidate." See Observer, Page 13.



Former United Nations secretary general Mr. Javier Pérez de Cuéllar, pictured above amid supporters at the Villa El Salvador shanty-town near Lima, says he will make an announcement on September 23, on whether to stand in the Peruvian presidential election next April. Reuter reports from Lima. In a statement late on Sunday, Mr. Pérez de Cuéllar said he was seriously considering a request from several sectors of Peruvian society to run for president. "I will soon resume my pilgrimage around the country and, on September 23, I will formally announce my final decision," he said. Earlier on Sunday, he had told the meeting at Villa El Salvador that he was "an independent candidate." See Observer, Page 13.

Blockade of Cuba unlikely

By James Harding in Miami

The Clinton administration yesterday sought to damp speculation that the US was about to impose a naval blockade on Cuba. Mr. William Perry, the defence secretary, visiting southern Florida to assess for himself the scale of the refugee problem, said: "We do not have orders at this time to effect a blockade."

A Pentagon official travelling with Mr. Perry went further, to say that a blockade was "not something currently at the forefront of our planning."

Speculation that the US government would impose a blockade as a measure to speed the downfall of Cuba's President Fidel Castro grew over the weekend after Mr. Leon Panetta, White House chief of staff, said a blockade was one of the options the US administration was considering.

Mr. Perry confirmed the navy would send 10 ships to assist the Coast Guard in dealing with the growing number of Cubans attempting the crossing despite the administration's announcement at the end of last week that Cuban refugees would no longer be granted entry to the US and would be detained at the US naval base at Guantánamo Bay in Cuba.

كلمة اليوم

Intel and AT&T in conferencing system deal

By Alan Cane

The threat of a damaging standards war in personal video-conferencing similar to the VHS and Betamax battle which divided video recorder manufacturers receded yesterday when AT&T and Intel said they were working together to build a compatible system.

Personal video-conferencing, where participants can see both each other and work papers on their personal computer screens while holding a telephone conversation, has been hailed as the future of business communications. Intel, the world's largest semiconductor manufacturer has developed a system which can be installed in a PC in conjunction with a miniature video camera to create a desktop video conferencing system.

AT&T, the largest US telecommunications carrier has an obvious interest in increased traffic on its network through advanced services, such as teleconferencing.

Mr John Petrillo, president of AT&T business communications services said: "This agreement will provide a technology base for making video and data calls with a PC as accessible and easy to use as calls with a telephone."

Conventional video-conferencing systems used by large companies cost £40,000 or more and are comparatively inflexible. Desktop video costs only about £3,000 in addition to the cost of the PC.

A concern has been that Intel's video-conferencing system, called Proshare, is not compatible with the accepted standard for large video-conferencing, called H.320. The worry was that a standards war over the two standards could slow progress. Proshare is cheaper than H.320 but does not have all its facilities.

Yesterday's agreement between AT&T and Intel means that customers will get "seamless integration between Intel's Proshare and AT&T's network services", the groups said. The two companies will build a technology bridge between the two standards.

Competition darkens the clouds over Brazil's carriers

Patrick McCurry reports on the battle for survival that economic conditions have forced on Latin American airlines

Brazil's three main airlines are cutting costs and seeking international alliances in a drive to counter the harsh economic environment.

The carriers - Varig, Transbrasil and Vasp - have been hit by weak demand and by partial, but long-overdue, deregulation which has put pressure on revenues through increased domestic competition. On international routes the airlines face excess capacity and fierce competition from US carriers.

To add to the pressures, lack of co-operation among the three has blocked some attempts to cut capacity and reduce costs.

These problems have forced the carriers to reduce operating and financing costs in radical restructuring programmes. Thousands of jobs have been cut, aircraft have been returned to leasing companies, and leases are being renegotiated.

In March, Varig, Latin America's largest airline with sales of \$2.5bn last year, suspended lease payments on 50 of its 80 aircraft and cut 2,600 jobs.

Since then it has agreed to return four wide-bodied aircraft to leasing companies and is negotiating the return of another five. These measures are saving the airline \$10m a month, according to Mr Rubel Thomas, chairman.

Varig is also giving seats on its board to suppliers General Electric and McDonnell Douglas of the US, in return for help

in restructuring debts of about \$600m related to the purchase of 10 aircraft and financed by the US Exportbank. Another board seat will be offered to Varig's Brazilian creditor banks, with which it has short-term debts of about \$250m.

Mr Thomas forecasts that, after losing \$97m in the year to December 1993, the company will return to operating profit next year. Varig, controlled by an employees' foundation, has lost more than \$1bn in the past six years.

Varig, says Mr Thomas, has cut capacity by 14 per cent in the past year and is making money on domestic routes, where it has a 50 per cent market share. Competitors say its success is due to its ownership of half the busy São Paulo-Rio de Janeiro air shuttle and its dominance in overseas flights allows it to act as a feeder airline within Brazil.

Mr Thomas says Varig must also improve its international performance since it relies on these operations for more than half its revenues. Traffic between Brazil and the US has increased from 900,000 passengers in 1989 to an estimated 1.5m this year.

The increase has prompted Brazilian and US carriers to increase weekly flights from 40 to 61, hurting margins.

Brazilian carriers have also faced more aggressive competition from American Airlines and United Airlines, which began flying to Brazil after the US renegotiated an air



Working towards better times in Brazil: airline carrier Varig's maintenance base at Rio de Janeiro International Airport

services agreement in 1989.

Brazilian governments have always backed Varig, but officials say airlines can no longer rely on government support. Mr Mauro Gandra, head of the Civil Aviation Department (DAC), says: "Varig must learn to compete with companies like American Airlines."

Varig has linked with a US partner, Delta Airlines. It began a code-sharing agreement with Delta in June, and is now flying daily to Delta's

Atlanta airport hub with connections to about 250 destinations in North America.

The agreement, which also involves Varig in Delta's frequent flyer programme, is expected to improve the Brazilian carrier's international profitability, analysts say. Brazil's other two main airlines have been less successful in finding international partners.

Transbrasil plans to cut 1,500 workers from its 5,000 workforce, and founder Mr Omar

Fonseca says he is considering the sale of 40 per cent of the company to a consortium of Brazilian and European banks.

Vasp, which the state of São Paulo privatised in 1990, had a negative net worth of nearly \$400m at the end of last year. It cut its workforce from 7,000 to just over 5,000 last year, and returned nearly half its fleet of 58 aircraft to leasing companies. This has led to a significant cut in financing costs, but there are still uncertainties

about how it can continue to service its net debt, which last year approached \$400m.

"Varig is learning how to survive in a more deregulated environment and Transbrasil has a very creative owner, but the jury is still out on Vasp's future," says Mr Bob Booth, a Miami-based aircraft consultant.

The shake-up follows years of over-regulation, when Varig was the only Brazilian airline allowed to operate international

ally and Vasp and Transbrasil were given protected routes in the domestic market.

This closed shop was partly opened in 1991 and 1992 under former president Mr Fernando Collor, who deregulated air fares and allowed regional airlines to offer non-stop routes between big cities.

The government allowed the regional carriers access to important inter-urban routes to compensate for the essential but often unprofitable routes in Brazil's vast and undeveloped interior regions.

Unfortunately for the three main carriers, the deregulation coincided with a continuing fall in domestic demand. Due to Brazil's economic problems the market shrank from 15bn revenue passenger kilometres in 1989 to 11.2bn last year and has fallen by another 5 per cent in the first half of this year, says Mr Sergio Kuczyński, Transbrasil's planning director.

But the airlines have largely refused to co-operate on rationalising flights.

Hopes that an economic stabilisation plan, launched this month, will boost demand led the airlines to postpone further capacity cuts at a meeting with the DAC in June, says Mr Thomas.

Although the companies are attempting to tackle their problems, analysts believe the restructuring is overdue and that further cuts will be needed to secure their long-term future in an increasingly turbulent environment.

Kersaf leisure group lifts profit by 4% to R443m

By Mark Szerman in Johannesburg

Kersaf Investments, the South African-based leisure group, which has widespread interests in hotels, casinos and cinemas, boosted after-tax profit by 4 per cent for the year to June to R443.4m (\$124m) from R427.8m.

Turnover increased 8 per cent to R2,225m from R2,057m, while operating profit rose 7 per cent to R574.2m from R536.1m a year ago. The dividend was raised to 150 cents a share from 147 cents.

Although analysts regarded the results as satisfactory, most were disappointed at the final figure in light of the 15 per cent rise in pre-tax profit reported at the half year.

The group attributed the drop in the second-half earnings largely to unrest during March in the former homeland of Bophuthatswana where Sun International's Sun City and Lost City, the largest contributors to group revenues, are based.

The trouble deterred tourists.

Last Kässbohrer division sold off

By Christopher Parkes in Frankfurt

The all-terrain vehicles division of the private Kässbohrer automotive group has been taken over by the German arm of the Schroder Ventures group for an undisclosed sum.

The senior management, led by Mr Erwin Wieland, will participate in the deal and continue to run the business.

Schroders & Partner Beteiligungsberatung, however, will hold the "overwhelming" majority of the stake,

Schroders said last night. The buy-out, Schroders fifth this year, was among the five biggest recorded in Germany, the finance house said.

The division turned over DM169m (\$110m) last year and is best known for its Pisten Bully piste bashers which prepare and groom ski runs.

Some 9,000 have been delivered in the past 25 years. It also makes beach cleaning vehicles and a small range of tracked vehicles.

Employing a staff of 300, with 200 in the main base in Ulm, it claims to have a 65 per

cent share of the European and a 50 per cent stake in world markets for piste preparation equipment.

Schroders said yesterday the Canadian Bombardier group, which had long been interested in the business, had dropped out after making an offer considered to be too low by creditor banks and the out-going Kässbohrer family.

The disposal completes the break-up of the 100-year-old Kässbohrer group.

This follows the recent agreement to sell the Setra marque bus business to Mercedes-Benz.

TVX, Kinross withdraw C\$2.3bn Lac Minerals bid

By Robert Gibbons in Montreal

TVX Gold, an aggressive Toronto-based international gold producer, has withdrawn a C\$2.3bn (\$1.6bn) joint bid with Kinross Gold, another medium-sized Canadian producer, for Lac Minerals.

TVX and Kinross revealed their friendly share exchange proposal on August 1. It was rejected by Lac, as were bids from Royal Oak Mines and American Barrick Resources.

Lac said it wanted to remain independent. TVX and Kinross wanted to split Lac's assets, with TVX taking the Chilean properties and Kinross the Canadian properties.

TVX said yesterday it was not in its shareholders' interest to pursue the merger.

Royal Oak's revised C\$2.4bn bid is due to expire tonight and American Barrick's C\$2.1bn offer expires on Friday.

The Ontario Securities Commission decided on Friday that Lac must dissolve its poison pill shareholder protection plan if either bid is accepted by 66 per cent of its shareholders.

Presidenza del Consiglio dei Ministri
Regione autonoma della Sardegna Provincia di Cagliari
Comune di Carbonia Comune di Gonnesa Comune di Portoscuso

Concession for the operation of the Sulcis coal mine and the construction and operation of an associated coal gasification heat and power plant

Preliminary Information Notice

The Office of the Prime Minister of the Republic of Italy, the Regional Government of Sardinia, the Province of Cagliari, the Municipality of Carbonia, the Municipality of Gonnesa, the Municipality of Portoscuso, jointly acting as the Concedant Authority, announce that an international tender is being carried out to award a comprehensive concession for the completion, operation and maintenance of the Sulcis coal mine and the design, construction, operation and maintenance of an associated coal gasification heat and power plant.

The effective start of the international procedure for the award of the concession will be made known by means of publication of a Notice of Tender in the Official Journal of the European Communities, in the Official Journal of the Italian Republic and in the Italian and international press on September 15, 1994 (provisional date). The procedure will be performed in accordance with the Council Directive 93/37/EEC, the Council Decisions 93/323/EEC and the Legislative Decree of the Italian Republic 406/91.

The procedure will be open to bidders from both EU and non-EU countries. The concessionary will run the Sulcis coal mine and will build, own and operate an associated coal gasification heat and power plant, with net capacity ranging from 350 MW to 450 MW. The mining concession and the existing mining equipment of Carbonisulcis SpA will be transferred free of charge to the concessionary. Power from the new plant will be purchased by ENEL SpA under a long term power purchase agreement. Preliminary information on the tender procedure is available in the Decree of the President of the Republic dated January 28, 1994 (as amended by the Decree of the President of the Republic dated June 9, 1994) published in the Official Journal of the Italian Republic on March 9, 1994.

Only companies or consortia with relevant expertise in both coal mining operation and power generation will be allowed to participate in the tender.

A Steering Committee including representatives of the Concedant Authority and ENEL SpA, and headquartered at the Office of the President of the Regional Government of Sardinia, will be the Contracting Authority responsible for the award of the concession.

IMI - Istituto Mobiliare Italiano SpA will be advising the Steering Committee on the development of the tender procedure, the award of the concession and the structuring of the contractual documents.

Further information is available on request from:

Comitato di Coordinamento
c/o Presidenza della Giunta della Regione
Autonomia Sardegna
Viale Trento 69, Cagliari - ITALIA
Tel. (39 70) 6062223 - 6062406
Fax. (39 70) 6062454 TELEX 790344 PREGIR

This Preliminary Information Notice was sent on August 10, 1994 to the office for Official Publications of the European Communities for the publication in the Official Journal of the European Communities and in the TED data bank. Only the original Italian text is authentic.

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U.S. \$400,000,000
PRIMARY CAPITAL UNDATED FLOATING RATE NOTES

Notice is hereby given that the Rate of Interest has been fixed at 5.5625% and that the interest payable on the relevant Interest Payment Date and that the interest payable on the relevant Interest Payment Date of February 28, 1995, against Coupon No. 10 in respect of \$5,000,000 nominal of the Notes will be \$142.15 and in respect of \$100,000,000 nominal of the Notes will be \$2,843.00.

August 23, 1994, London
By: Citibank, N.A., (Issuer Services), Agent Bank **CITIBANK**

U.S. \$250,000,000
Canadian Imperial Bank of Commerce
(A Canadian Chartered Bank)
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Debentures due 2005

Notice is hereby given that for the six months interest period from August 23, 1994 to February 23, 1995 the Debentures will carry an interest rate of 5.4375% per annum. The interest payable on the relevant interest payment date, February 23, 1995 against Coupon No. 17 will be U.S. \$277.92 and U.S. \$2,779.20 respectively for Debentures in denominations of U.S. \$10,000 and U.S. \$100,000.

By: The Chase Manhattan Bank, N.A.
London, Agent Bank
August 23, 1994

Republic of Austria
US\$4350,000,000
Floating rate notes 1997

Notice is hereby given that the notes will bear interest at 5% per annum from 23 August 1994 to 23 November 1994. Interest payable on 23 November 1994 will amount to US\$12.78 per US\$1,000 note, US\$127.78 per US\$10,000 note and US\$1,277.78 per US\$100,000 note.

Agent: Morgan Guaranty Trust Company
JPMorgan

CREDITANSTALT BANKVEREIN
US\$100,000,000
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Agent: Morgan Guaranty Trust Company
JPMorgan

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Agent: Morgan Guaranty Trust Company
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June 1994

BankAmerica Corporation
US \$500,000,000
Floating Rate Notes Due February 1997

For the period from August 23, 1994 to November 23, 1994 the Notes will carry an interest rate of 5.375% per annum with an interest amount of US \$696.88 per US \$100,000 principal amount of Notes payable on November 23, 1994.

Bank of America N.Y. & Co.,
London - Agent Bank

Westpac Banking Corporation
(Incorporated with limited liability in the State of New South Wales, Australia)
USD 150,000,000
Subordinated Floating Rate Notes due 1997

In accordance with the Terms and Conditions of the Notes, notice is hereby given that for the Interest Period from August 23, 1994 to February 23, 1995 the Notes will carry an Interest Rate of 5.5625% per annum.

The Interest Amount payable on the relevant Interest Payment Date, February 23, 1995 will be USD 284.31 for each Note of USD 10,000 and USD 7,107.64 for each Note of USD 250,000.

The Agent Bank:
Brown, Shipley & Co. Limited

The Financial Times
wishes to publish a Survey
Northern Ireland
on Thursday, September

to face music
Nikki Tait reports

INTERNATIONAL CAPITAL MARKETS

Treasuries sharply lower on \$ weakness

By Frank McGurty in New York and Antonio Sharpe in London

US Treasury bonds moved sharply lower yesterday morning as the dollar continued to weaken against other leading currencies.

By midday, the benchmark 30-year government bond was down 3/8 at 99 1/8, with the yield rising to 7.538 per cent. At the short end, the two-year note was down 1/8 at 99 1/8, to yield 6.227 per cent. After holding fairly steady on Friday, bonds across the board resumed a decline which had begun the day after the Federal Reserve's decision last week to boost short-term interest rates.

In the absence of any fresh economic statistics, the focus yesterday was on the foreign exchange markets, where the US currency lost further

ground against the yen and the D-Mark amid concerns over US-Japanese trade talks. Traders fear a weak dollar may discourage overseas investment in US-denominated securities.

There was also concern over this week's influx of new supply. The market faces the auction of \$17.25bn in two-year notes today, followed by the sale of \$11bn in five-year securities tomorrow. Amid the current pessimism, demand could prove to be disappointing.

That prospect put the market on the defensive. Bonds registered moderate losses in the early going, but the damage grew more pronounced as the morning progressed. However, the damage was exaggerated by the light trading activity.

■ Fears that German inflation

could nudge above 3 per cent this month and rumours of a large sell order worked around a half-point off German government bonds soon after the

GOVERNMENT BONDS

opening. The weakness in Europe dragged down other European markets in the morning but they later recovered. Dealers said that although bonds stabilised at lower levels, after the rumoured selling failed to materialise, the mood remained bleak and volume thin. Even the continued strength of the D-Mark failed to support bond prices.

A further dampener was the Bundesbank's announcement that it would be holding an auction of four-year

treasury notes next week.

The news focused the market's attention once again on the Bundesbank's large funding programme. Dealers believe the central bank is aiming to raise around DM6bn from the auction.

On Liffe, the September bond future went as low as \$100.00 at one stage but by the late afternoon it recovered to \$101.50, down 0.13 point on the day. Volume was relatively robust for August.

■ Elsewhere, the Italian and Swedish bond markets bounced back after last week's weakness which had followed the interest rate rises in both countries.

The 10-year Swedish yield spread against bonds narrowed by around 50 basis points to 385 points after reaching almost 500 points last week. The 10-year government bonds rose by just over a half-point.

showed no inflation, weaker consumer demand and a shift to exports. "The GDP numbers do promise an appealing future for gilts," he said.

The September long gilt future on Liffe stood 1/4 point higher at 100 1/4 in the late afternoon, off the day's low of 100 1/8, in low volume of just over 35,000 lots.

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Kickbacks ban plan stirs up Hong Kong hornets

Hong Kong fund managers are putting the finishing touches to their submissions on an issue that has stirred up a hornets' nest: proposals to ban fund managers from keeping cash commission rebates.

The Security and Futures Commission (SFC), the watchdog for the colony's financial markets, circulated its proposals last month, prompted by developments overseas and domestic concern. It is believed that less than half of the colony's fund managers accept cash commission rebates - the portion of broker's commission which is sometimes refunded to the fund manager.

The SFC says that in the US, UK and most continental European markets these rebates - or kickbacks - are effectively barred from winding up in managers' channels. Instead, they are channelled back to the fund for investors. Jardine Fleming, the loudest dissenting voice and a recipient of rebates, disputes this, saying it is market practice instead of regulation which has dictated the end of rebates in the UK and Australia.

so long as they are disclosed." Jardine itself is in favour of fuller disclosure.

For fund managers who receive rebates, the stakes involved in losing them are high. After canvassing portfolio managers, the SFC found certain managers receive rebates ranging from 35 per

cent to well over 100 per cent of management fee revenues.

Managers of units trusts who are authorised to retain cash commission rebates will usually receive a rebate of between 0.15 per cent and 0.25 per cent of the transaction value in cash and will be separately invoiced, by the broker, for a 0.50 per cent commission. Brokerage commission rates for institutional-size transactions in Hong Kong stocks usually range from 0.25 per cent to 0.50 per cent of transaction value.

Brokers believe opponent Jardine Fleming is whistling in the wind, writes Louise Lucas

In the opposite corner from Jardine Fleming stands Fidelity Investments, which has more than US\$2bn in its Hong Kong authorised mutual funds. Fidelity is firmly opposed to these kickbacks.

It argues that a fund manager who receives additional cash every time he trades suffers a conflict of interest since frequent buying and selling, or "churning", raises his own monetary rewards. Moreover, brokers may not always be selected on the basis of his service, but the size of his commission, which is detrimental to the interests of the investor.

While Fidelity can be accused of making a virtue out of necessity - being prohibited from retaining rebates in the majority of big markets where it operates - their argument is winning altogether more sympathy than that of Jardine Fleming. Brokers generally believe Jardine is whistling in the wind, and that the SFC will proceed to ban rebates.

Jardine Fleming says if it were to take this route the SFC would build a stricter regime in Hong Kong than that which operates in the UK and Australia and jeopardise the colony's competitive edge.

Attention centres on D-Mark issues

By Corrie Middelmann

A handful of D-Mark issues were the focus of an otherwise quiet day in the euro-bond market.

Chemical Bank lead-managed two floating-rate note issues, DM150m for Union Bank of Finland and DM80m

investors, mainly in Europe. The Union Bank of Finland issue, however, was widely criticised as being too tightly priced. It pays a coupon of three-month Libor plus 15 basis points and was offered at a discounted margin of 18 basis points over Libor. "Why should I buy a BBB/A3-rated Finnish name when I can get Italy at around the same level?" asked one syndicate official.

The establishment of money market funds in Germany, which have been permitted since August 1, has created increased demand for money-market paper. However, according to one Frankfurt dealer, the funds so far have been buying mainly domestic paper. Still, "once they've exhausted the domestic market, they'll start buying sovereign names", he said, adding that he expects to see

NEW INTERNATIONAL BOND ISSUES							
Borrower	Amount \$	Coupon %	Price	Maturity	Yield %	Spread bp	Book runner
US DOLLARS							
General Electric Capital Corp.(a)	100	6.50	variable	Jun.1997	undiscd.	-	Kidder Peabody Inst.
D-MARKS							
Ford Credit Europe	200	7.125	101.57	Sep.1998	2.50	-	DG Bank
Union Bank of Finland(b)	150	(c)	99.90R	Sep.1997	0.125R	-	Chemical Bank
Landisbank	50	(c)	99.83	Sep.1998	0.25	-	Chemical Bank
EURODOLLARS							
General Electric Capital Corp.	250	6.575	99.77R	Sep.1997	0.1875R	+156 1/4-97	ABN Amro Bank
AUSTRALIAN DOLLARS							
Toyota Motor Credit Corp.	125	8.50	100.97	Sep.1997	1.50	-	Hambros Bank
HONG KONG DOLLARS							
Whitbread Finance (1994)c	1bn	(d)	100.00R	Sep.1998	0.50R	-	Goldman Sachs (Yield)

(a) Final terms and non-callable unless stated. The yield spread (over relevant government bond) at launch is supplied by the lead arranger. (b) Floating rate note. (c) Fixed at non-offer price; prices are shown at the re-offer level. (d) Putable with \$250m. Plus 38 days accrued interest. Call date in Sep.98 at par. No take-out facility.

Final terms and non-callable unless stated. The yield spread (over relevant government bond) at launch is supplied by the lead manager. Floating rate notes: (a) fixed rate of 6.50 per cent; (b) fixed rate of 6.00 per cent; (c) floating rate of 3-month Libor + 0.125 per cent. (d) 3-month Libor + 0.25 per cent. (e) 3-month Libor + 0.1875 per cent. (f) 3-month Libor + 0.25 per cent. (g) 3-month Libor + 0.1875 per cent. (h) 3-month Libor + 0.25 per cent. (i) 3-month Libor + 0.1875 per cent. (j) 3-month Libor + 0.25 per cent. (k) 3-month Libor + 0.1875 per cent. (l) 3-month Libor + 0.25 per cent. (m) 3-month Libor + 0.1875 per cent. (n) 3-month Libor + 0.25 per cent. (o) 3-month Libor + 0.1875 per cent. (p) 3-month Libor + 0.25 per cent. (q) 3-month Libor + 0.1875 per cent. (r) 3-month Libor + 0.25 per cent. (s) 3-month Libor + 0.1875 per cent. (t) 3-month Libor + 0.25 per cent. (u) 3-month Libor + 0.1875 per cent. (v) 3-month Libor + 0.25 per cent. (w) 3-month Libor + 0.1875 per cent. 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COMPANY NEWS: UK AND IRELAND

Better agrochemicals showing behind return to black with £1.13m

MTM plans £16.7m expansion

By Tim Burt

MTM, the chemicals company which almost collapsed two years ago, yesterday announced details of a new acquisition strategy aimed at rebuilding the group.

It is planning to spend up to £16.7m of its cash reserves to establish three or four core businesses in sectors such as bio-technology, ceramics and instruments.

The move follows an aggressive divestment programme, culminating last month with the sale of its agrochemicals subsidiary to United Phosphorus for £10.5m - the last subsidiary inherited from the previous management.

Having sold most of its assets to BTP last year to reduce debt, the group has emerged with just one business: Colin Stewart Minchem, a minerals and chemicals processor acquired for £11.8m earlier this year.

"The old MTM no longer exists and there will be no more bad news," said Mr David Swallow, chairman.



David Swallow: old MTM no longer exists and no more bad news

The shares rose 6p to 85p yesterday after the company announced first half pre-tax profits of £1.13m, against losses of £11.9m last time.

Mr Swallow said the turnaround was due mainly to an improved performance by the agrochemicals business, where a new management team has cut costs and consolidated operations at two sites.

The figures were also flattered by £221,000 of interest receivable, compared with payments of £3.7m, and a £418,000 contribution from CSM.

Announcing an interim dividend of 0.5p - the first since 1991 - Mr Swallow added: "We want to get MTM on a sound long-term footing, and this is the start."

With the balance sheet

strengthened by the agrochemicals disposal and funds raised by the placing and open offer earlier this year, the group has begun eyeing technology-related businesses.

Likely acquisitions range from established profitable companies to emerging businesses which promise to be cash generative.

Earnings per share were 3.73p (losses of 60.6p).

COMMENT

MTM is a speculative buy. Uncertainty surrounds the ongoing inquiry by the Serious Fraud Office, which is investigating the former management, and there is no guarantee that their successors will find the right acquisitions to bolster shareholder value. Nevertheless, second half contributions from CSM and the sale of surplus property - including the Ruddy Hall headquarters when the market capitalisation was £214m rather than £18m - should lift full year profits to £2.5m. The shares look pretty cheap on a forward multiple of 14.3, but the risks remain.

Investment losses push Hibernian in the red

By Richard Lapper

Hibernian Group, the third largest insurance company in the Irish Republic, reported a pre-tax loss of £56.24m (£5.2m) for the first six months of 1994, against restated profits of £131.5m.

The result was after realised and unrealised investment losses of £118.1m (gains of £21.2m). Operating profits were 15 per cent ahead at £11.8m (£10.2m).

After a tax credit of £2.67m (£11.6m debit) losses per share emerged at 7p against earnings of 38.9p. The interim dividend is raised by 8 per cent to 2.5p (2.3p).

Hibernian, which earns more than 80 per cent of its non-life income in Ireland, saw general insurance profits rise by 7 per cent to £58.4m (£58.8m), largely reflecting an improved underwriting performance.

Underwriting losses were cut to £17m (£28.46m) - mainly because of the effect of past premium rate increases - and helped offset a reduction in income from investments to £16.4m (£17.3m).

Premium income increased by 8 per cent to £118.9m. Operating profits from life assurance and pensions business increased by 67 per cent to £12.42m (£1.45m). New annual premiums increased by 43 per cent to £25.3m, with Hibernian increasing its market share. Single premium sales amounted to £19.1m, compared with £13.1m. Last year single premium business was boosted by sales of guaranteed bonds.

The group said that "severe volatility" in world stock markets during the first half of 1994 caused a fall in the capital value of investments of £118.1m, with shareholders' funds decreasing to £195.5m compared with £190.1m at December 31. Net assets per share amounted to 185p (195.5p at end-December).

Mr Cecil Hayes, general manager finance, said that despite the investment losses the group had still outperformed the Irish gilt and equity markets.

Meyer shake-out continues as Jewson chief resigns

By Andrew Taylor, Construction Correspondent

The management shake-out at Meyer International is continuing with the announcement yesterday that Mr Richard Reynolds is resigning as chairman and managing director of Jewson, Britain's biggest builders' merchants chain and the company's largest subsidiary.

Mr Reynolds, 45, who joined Jewson at the age of 16, had been managing director of the subsidiary since 1986. He is also resigning as a main board director of Meyer. The company said that Mr Reynolds would be leaving on September 30 "to pursue other interests".

The company is thought to have regarded Mr Reynolds as a good operational manager, but not the right person to pursue the strategic development of the builders' merchants

business which is expected to expand as construction demand increases.

It is the third major board change to be announced at Meyer in less than a year. Mr Richard Jewson last autumn announced that he was quitting as chairman and chief executive of Meyer after the company decided to split the two roles in line with the Cadbury committee recommendations.

Mr Jewson, who became chairman in 1991, said that he did not disagree with the board's decision to divide the two roles, but did not want to become a non-executive chairman, nor did he wish to go back to being chief executive, his earlier post.

He was succeeded as chief executive by Mr John Dobby, managing director of Meyer since October 1991. Mr David

Kendall, chief executive of BP Oil between 1985 and 1988 and chairman of Bunnell until last year, was appointed non-executive chairman of Meyer in April.

Until a successor for Mr Reynolds is appointed, Mr Dobby will take over responsibility for running Jewson, which contributed 35 per cent of Meyer's turnover and 41 per cent of operating profits in the 12 months to end-March.

Group profits for the year rose from £14.4m to £41.6m while sales increased by 10 per cent to £1.2bn. Jewson's operating profits rose by 73 per cent to £20.7m.

Meyer said yesterday that sales at Jewson, helped by a rise in new housebuilding, were higher in the first four months of the current financial year than at the corresponding stage last year.

BDA chairman out after EGM

Mr Brian Duker, chairman and chief executive of BDA Holdings, has been removed from the board of the property investment and development group.

This follows an extraordinary meeting on Friday when shareholders holding 10.14m ordinary shares, or 56.01 per cent of the equity, voted in favour of the resolution to

remove Mr Duker. Holders of only 629,136 shares (3.48 per cent) voted against.

The meeting was called by two non-executive directors, Mr Richard Wollenberg and Mr Nigel Jamieson, who now intend to take an active role in running the company.

Mr Wollenberg, formerly non-executive deputy chairman, has taken over as

chairman. He said BDA "intends to build out its existing developments and land bank and will seek new opportunities to take the company forward".

Mr A. Dawes, presently in charge of building operations, has been appointed general manager. The board plans to seek additional directors in due course.

Hongkong Bank of Canada lifts net income by 34%

Hongkong Bank of Canada, an indirectly-held, wholly-owned subsidiary of HSBC Holdings, reported consolidated net income up 34 per cent to £23.1m (£10.7m) for the third quarter of 1994, against £17.2m in the comparable period last time.

Total assets at July 31 were £15.5bn, up 21 per cent from the £12.8bn at end-July 1993. Return on average equity for the period was 17.5 per cent, against 14.1 per cent.

Mr Bill Dalton, president and chief executive, said the growth of the balance sheet,

tight cost controls, and prudent credit management had all contributed to a "record nine months for the bank".

The risk/asset ratio stood at 8.8 per cent at the period end, and the Tier 1 capital ratio was 5.5 per cent.

Sime Darby offer unconditional

Sime Darby London's agreed offer for Lec Refrigeration has received acceptance - in respect of 3.66m shares equal to 57.24 per cent of the new equity.

The offer is declared unconditional as to acceptances and will remain open until further notice.

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Current dividend	Total for year	Total last year
Aerospace Eng	0.5	Oct 10	0.5	0.75	0.75
Hibernian	2.5p	Oct 21	2.3	-	7
MTM	0.5	Oct 15	nil	-	nil

Dividends shown per share net except where otherwise stated. £/share pence.

Warburg to act as custodian for Halifax

By Norma Cohen, Investments Correspondent

Halifax Building Society, the UK's largest, has appointed SG Warburg's custody and investor services division to handle the administration of its new unit trust business, due to be launched early next year.

The move is part of a growing trend among providers of retail investment products to assign administration and custody functions to third-party providers in an effort to reduce costs. Efficient management of custody and administration increasingly requires significant invest-

ments in systems technology which are too large for all but the largest groups.

Last year, Henderson Administration and Gartmore, two fund management companies with significant retail products, formed a joint venture to handle the back-office custody and administration business for their own and others' funds.

The other leading provider in the UK is Premier Administration, a division of US-based Mellon Bank, a significant participant in the global custody business.

Warburg is already the custodian for the new start-up retail financial products business of the Leeds Building Society and the

retail products business of Invesco, the fund management group. "This is a business where economies of scale really do make a difference," said Ms Elizabeth Corley, director of Warburg's custody and investor services division. About £3bn to £4bn of Warburg's custody assets are those of third parties.

"What we have found is that their interest is less pure custody and more administrative services," she said. Rules governing unit trusts make explicit requirements on the pricing of units, frequency of fund valuations and transfers of ownership of units.

Coventry advances 27% to £16.5m

By Alison Smith

Coventry Building Society yesterday reported a 27 per cent rise in pre-tax profits to £16.5m for the first half of 1994. Against a background of intense competition for personal savings, the society took in only £43m in net retail receipts - including interest

added to savings accounts - against £187m last time.

Mr Martin Ritchley, chief executive, said that the sector as a whole had suffered an outflow in the first half of the year. The society is expected to pursue retail deposits more aggressively in the second half of the year.

He emphasised, however, the

importance Coventry attaches to raising money on the wholesale markets, which is cheaper at present, to fund its mortgage lending. Mortgage lending was slightly higher in the first half of the year, at £216m (£208m).

Provisions against bad and doubtful mortgage debts fell to £1.3m (£4.2m).

Total assets rose to £3.05bn (£2.82bn).

There has been speculation that Coventry, the UK's 15th largest society, would be a potential target for a bank or other financial institution. But Mr Ritchley said its results showed it was able successfully to maintain its independence.

The Wharf (Holdings) Limited

(Incorporated in Hong Kong with limited liability)



INTERIM RESULTS FOR THE HALF-YEAR PERIOD ENDED JUNE 30, 1994

- The unaudited Group profit attributable to Shareholders for the six months ended June 30, 1994 amounted to HK\$1,737.4 million, representing a 26 per cent improvement over that achieved in the corresponding period last year. Earnings per share were 80.3 cents.
- The Board has declared an interim dividend of 22 cents per share in respect of the financial year ending December 31, 1994, representing an increase of 15.8 per cent over that paid for the previous corresponding period.
- NAV at HK\$40.68 per share, up 12 per cent from December 1993.
- Wharf has secured an "A" rating from Standard & Poor's, enhancing local and international long-term funding ability.
- With more than ten million square feet of prime investment property in its portfolio, Wharf has consolidated its position as one of the strongest property investment companies in Hong Kong and as the single largest foreign property investor in Singapore. Times Square is now fully leased with its rental revenue making a major contribution to Group earnings.
- Strong demand for The Gateway's prime quality office and retail space ensures it will repeat the success of Times Square.
- With 11 channels broadcasting 24 hours a day, Cable TV is on target to reach 80 per cent of the territory's households by year end.
- Hong Kong's role as a service centre for China emphasised with significant cargo throughput increases at both Modern Terminals Limited and Hong Kong Air Cargo Terminals Limited.
- Construction of Wuhan Times Square now powering ahead - the first of six major property projects in China.

SUMMARY OF UNAUDITED CONSOLIDATED RESULTS

Six months ended June 30	1994 HK\$ Million	1993 HK\$ Million
Turnover	4,027.2	2,533.9
Operating profit	1,438.6	886.4
Exceptional items	243.3	478.0
Profit from ordinary activities	1,681.9	1,364.4
Share of profits of associated companies	354.8	174.6
Profit before taxation	2,036.7	1,539.0
Taxation	(262.5)	(137.3)
Profit after taxation	1,774.2	1,401.7
Minority interests	(36.8)	(20.7)
Group profit attributable to Shareholders	1,737.4	1,381.0
Interim dividend	(476.5)	(411.1)
Transferred to reserve reserves	1,261.1	969.9
Earnings per share	80.3 cents	65.2 cents
Interim dividend per share	22.0 cents	19.0 cents

EURO MEDIUM TERM

SOCIETE GENERALE
USD 10,000,000 DUE
AUGUST 23, 1994
ISIN CODE
XS0045708558

Notice is hereby given to the Noteholders that the Redemption Amount applied to the Notes on August 23, 1994, is 94.165 %.

This equates to USD 9,416,500 per USD 10,000,000 principal amount.

Payment of principal, together with accrued interest (ie USD 9,886,500) is payable on August 23, 1994, according to the Terms and Conditions of the Notes (the rate being 4.70 %).

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Tyne & Wear

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Sycamore plans £1.7m refinancing

By Clare Gascoigne

Sycamore, the laboratory, office and garden furniture manufacturer, has announced a refinancing with the issue of £1.7m convertible loan stock and a £500,000 bridging loan, subject to shareholder approval.

The refinancing is necessary because of continuing losses at the group, primarily at its Cynet laboratory furniture subsidiary. Mr Andrew Johnson, chairman, said Cynet had been placed in receivership and the group would now concentrate on its profitable Deanes office furniture business.

Royal Bank of Scotland and Tufton Capital, a corporate recovery specialist, have agreed to subscribe to the new stock, which will be convertible into ordinary shares representing up to 80 per cent of the enlarged share capital.

Existing shareholders will be able to subscribe to an amount equal to the number of shares that would arise if one third of the loan stock were immediately converted at a price equivalent to 90 per cent of the conversion price of the loan stock.

The group also announced a £1.84m pre-tax loss for the six months to end-March, compared with a restated loss of £1.88m. Turnover fell from £11.1m to £9.7m, although sales rose 53 per cent to £4.7m at Deanes, which made operating profits of £408,000 (£140,000).

In January the group sold HCL Fasteners and Ashworth Leisure for a total of £500,000. Mr Johnson said the first half did not include the full impact of Cynet's receivership, or further "substantial" asset write-downs.

Losses per share worked out at 0.84p (1.89p) and there is no interim dividend.

Cookson in east European venture

By Paul Taylor

Cookson, the specialist industrial materials group, is forming a joint venture with Thyssen of Germany to manufacture and supply the central and east European markets with special refractories and systems used in the steel continuous casting process.

The joint venture agreement involves Vesuvius International, Cookson's Belgium-based subsidiary and Dolomietwerke Wulfrath, a Thyssen subsidiary. Vesuvius will hold a 75 per cent stake in the new joint venture while Wulfrath will hold the balance.

Both partners will inject their shares in their own existing east European joint venture companies - Vesuvius Czechoslovakia Trinec and Ceramika Wulfrath Skawina - into the new company. The

local Czech and Polish partners in the existing joint ventures will remain shareholders.

Mr Stephen Howard, chief executive in charge of Cookson's group corporate development and chief executive of the Vesuvius division, said the joint venture would enable both Cookson and Thyssen to lessen the risk involved in eastern Europe and to establish a closer working relationship.

The central and eastern European markets represent annual steel production of about 170m tons with German production representing about 30 per cent of this.

The joint venture will initially have sales of between £25m and £30m a year, but turnover and profits are expected to grow quickly as the switch to continuously cast steel production takes place.

Thinking small gives 600 Group a cutting edge

Andrew Baxter considers new expansion opportunities which are being created in traditional markets



TACKLING ASIA'S TIGERS

Humidity can be a problem for both man and machine in Singapore, which is why the local subsidiary of 600 Group opened a new air-conditioned showroom there earlier this month to help boost sales of its machine tools.

However, in contrast to the climate created, Mr Richard Verrier is far from cool on the prospects for the machine tool and materials handling group in Singapore and neighbouring countries.

Markets may vary considerably from country to country but there are plenty of opportunities, said Mr Verrier, director and general manager of both George Cohen Far East and George Cohen (Malaysia), based in Singapore and Selangor, Malaysia, respectively. Mr George Cohen was the founder of 600 Group.

Along with many UK engineering companies, 600 Group has had a presence in the region for decades, but has recently reorganised its management to improve the performance of the businesses.

Its activities in Malaysia, Singapore, Hong Kong and New Zealand have been placed under the overall control of Mr John Leverett, managing director of 600 Machinery Australia. In its most recent annual report, 600 Group said the change had led to significant cost savings and "we are now well positioned to exploit the many expansion opportunities which exist in the countries of the Pacific Rim".

Mr Verrier said sales from Malaysia and Singapore, along with Hong Kong, were running at \$5m-£7m a year. "But I have no doubt they will increase, following the restructuring."

The company's aim is to expand its Asia Pacific activities into new countries and territories, starting this year. On a longer-term basis, Mr Verrier said Singapore would be the nucleus for exporting to Thailand, Sri Lanka, Burma and Indonesia, and he would also be looking at trading with Cambodia, Laos and Vietnam.

But he is not ignoring Singapore, as the new showroom testifies. The group's machine tool sales effort for the island state was strengthened significantly in May with the arrival of Mr David Gibney to head the local machine tools division.



Richard Verrier, left, and David Gibney: using unprecedented market research to take on lathe producers in Japan and Taiwan

Both Mr Gibney and Mr Verrier believe that, for perhaps the first time, 600 Group has the opportunity to take on the Japanese and Taiwanese lathe producers through the new range of Tornado machines produced by its Colchester Lathe offshoot.

The small, "no frills" computer controlled CNC lathes, launched in April following an unprecedented market

research exercise among small engineering companies, have proved an immediate success.

In Singapore, the machines are being aimed at "apartment factories", subcontractors which are demanding increasingly sophisticated CNC machines. But Mr Verrier is also hopeful of winning big orders for machine tools from Singapore's fast-growing engineering education sector.

Elsewhere in Singapore, the main prospects are in the company's emerging high-technology businesses, such as its laser marking system which has applications in the electronics industry. The system was launched in Singapore late last year, while the 600 Group electro-optical products have yet to be launched there.

Mr Verrier sees these products supporting sales in Singapore as the focus of the company's more traditional industrial products shifts to Malaysia, reflecting a transition apparent at other UK engineering companies operating in Singapore.

"The hub of machine tools sales is going to be Malaysia in the next few years," he said.

In machine tools, 600 Group is well established in Malaysia's education sector, but needs to penetrate better the industrial sector. Again Mr Verrier hoped the company could achieve this with the Tornado range and "hit the Japanese where it hurts".

His target is the country's small machine shops. The projected growth in Malaysia's automotive industry and plans to subcontract more machined automotive parts, make this an attractive sector. And, like its

Singapore counterpart, it is looking at buying CNC rather than manual machine tools.

But the big opportunity for 600 Group in Malaysia is for sales of its materials handling equipment to the palm oil industry. A shortage of labour in parts of the country is encouraging plantation owners to look at mechanised methods of collecting the fruit.

Mr Verrier is working hard to promote 600 Group's Hlab truck-mounted cranes for the job of hoisting 600kg bunches of fruit on to trucks, and said the cranes needed to be tough to do that 60 times a day.

That is one reason why there is less competition in the Malaysian materials handling than in its Singapore counterpart, where Mr Verrier said 23 companies offered truck-mounted cranes. Of these, half were serious rivals, and most were Italian producers which "really undercut on price".

Mr Verrier also sees other opportunities in Malaysia for sales of materials handling equipment to a commercial and construction sector for which this kind of equipment is relatively new.

Previous articles in the series appeared on August 9, 13 and 17.

NEWS DIGEST

Aerospace Engineering 71% ahead

Aerospace Engineering, the precision engineering group, lifted pre-tax profits by 71 per cent from £234,000 to £267,000 during the year to April 30.

Mr John Davis, chairman and chief executive, said the group was benefiting from the rationalisation programme completed last year. The balance sheet was strengthened, he added, following the sale of a surplus property in Swindon. There was improved demand for printed circuit boards and the group expected microwave board demand to continue growing.

Turnover of continuing activities slipped to £15.7m (£17.8m). Earnings per share rose from 0.25p to 0.64p and the

dividend is held at 0.75p with an unchanged final of 0.5p.

Surrey

Surrey Group, the bookmaker, received acceptances for 52.5m shares in its £2.1m rights issue, representing 56.6 per cent of the new share capital.

Ideal Hardware

Ideal Hardware, the specialist distributor of computer storage and related products which came to the market last month, has completed the acquisition of new premises, as anticipated at the time of flotation, for about £1.6m cash. The office and warehouse space is in New Malden, Surrey.

John Waddington

The £42m rights issue by John Waddington, the packaging, printing and games company, has been taken up in respect of

21.7m shares, or 84.2 per cent. The 2-for-7 issue was made to fund the £113.3m (£42.3m) purchase of Imca Beheer, the privately-owned Dutch cartons business.

TT/Dale

TT Group's recommended offer for Dale Electric International has been declared wholly unconditional.

TT said that it controlled or had acceptances in respect of a total of 18.5m shares, representing 80.91 per cent of the equity. Valid elections for the share alternative had been received in respect of 5.48m Dale shares.

Sage

Sage Group, the accounting software company, is acquiring Timeslips Corporation, a Massachusetts-based software supplier, for up to \$12.1m (£7.8m) cash. There is an initial \$5.1m

and a sales related payment of up to \$7m.

Unitech

Mr Peter Curry, chairman of Unitech, saw his total pay package rise from £190,000 to £262,000 last year following an 88 per cent increase in profits at the international electronic components group.

Although Mr Curry's basic salary and benefits were virtually unchanged at £158,000, he received an additional £36,000 in performance related payments. The group's annual report also showed that his pension contributions almost doubled to £74,000 (£38,000).

In the year to May 31, Unitech's pre-tax profits climbed to £19.8m (£10.5m).

Alliance/Castle

Alliance UK, part of the Alliance Entertainment Corporation of the US, has declared its

offer for Castle Communications wholly unconditional.

By the first closing date on August 19, Alliance had received valid acceptances in respect of 6.55m Castle shares, representing 96.1 per cent of the shares in issue.

The offer will remain open until further notice.

World Fluids

World Fluids is raising about £1.9m via a placing and open offer of four new shares for every nine ordinary held at 7.6p.

The specialist chemicals and additives maker which came to the market late last year following a reverse takeover by Kells Minerals, the Dublin-based exploration company, said the move would provide it with sufficient working capital to fund and expand its core business and deal with cash-flow problems. The company said its Libyan

debt problems had been resolved.

National Transcom

National Transcommunications, the privatised former transmission and engineering arm of the old Independent Broadcasting Authority, has appointed Mr Andrew Sukawaty as its chief executive.

Mr Sukawaty, currently chief operating officer of Mercury One-2-One, replaces Mr John Forrest who is to become NTL's deputy chairman.

The company is believed to be preparing for a stock market flotation.

Drew Scientific

Problems associated with the Glycomat testing equipment had been entirely corrected, Mr Bill Fulton, chairman of Drew Scientific, told the annual meeting and shipments had restarted in the second half.

SKF develops the cool solution



Personnel at the Chicago Mercantile Exchange, one of the world's busiest financial market places, are kept cool today by a new ozone-friendly air conditioning plant developed by The Trane Company, the world leaders in this field. But first, some special problems had to be overcome.

Compressor bearings and lubricants in this semi-hermetically sealed chiller must be compatible with the new environmentally-safe refrigerants used.

SKF, the world leader in rolling bearings, investigated this problem and developed a bearing system dedicated to ensuring efficient action of lubricants even though diluted with refrigerant. So Trane protects its fine reputation for reliability, confident of trouble-free service life for its equipment in critical working areas.

SKF Interim Report

SKF's consolidated income after financial income and expense for the first six months of 1994 amounted to 817 million Swedish kronor (£69m), an improvement of SEK 1,286m (£109m) compared with the corresponding period in 1993. Income for the second quarter totaled SEK 511m (£44m). Group sales during the first half of the year increased 14 percent to SEK 16,628m (£1,406m) compared with SEK 14,536m (£1,295m) in the first six months of 1993.

The sales volume increased by approximately 13 percent. Sales during the second quarter of 1994 totaled SEK 8,576m (£734m) compared with SEK 7,321m (£611m) in the corresponding period in 1993.

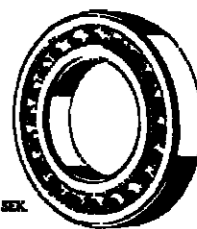
The increase in demand was strongest within the cars and trucks segment. The rate of increase during the second three months surpassed that of the first quarter. New car sales began to recover in Germany and after six months matched the level achieved during the corresponding period in 1993. France and Great Britain also showed improvements in sales, each with second quarters that were stronger than the first. The rate of SKF's sales to the European automotive industry, including the heavy trucks segment, continued at a level that was higher than the automotive customers' rate of production.

However, it is unlikely that demand will continue to increase at the rate which has applied to date during 1994. There are now signs indicating that build-ups in inventory are beginning to occur in the form of components or finished products. Eventually, such build-ups usually lead to a slowing in the growth.

Forecast

The Group's previous forecast of income after financial income and expense of approximately SEK 1.5 billion (£127m) in 1994 remains.

Average rate of exchange January - June 1994 1 GBP = 11.83 SEK January - June 1993 1 GBP = 11.92 SEK April - June 1994 1 GBP = 11.69 SEK April - June 1993 1 GBP = 11.92 SEK



COMMODITIES AND AGRICULTURE

Copper under renewed pressure

By Richard Mooney

Copper prices came under renewed pressure at the London Metal Exchange yesterday after last week's failure to break overhead resistance.

The three months delivery price, which last Thursday had briefly flirted with levels above \$2,430 a tonne, closed yesterday's late afternoon trading session at \$2,382 a tonne, down \$15.50 from Friday. And the selling continued in after hours trading, when the price

broke through resistance around \$2,390 to touch \$2,374, its lowest since August 4.

Many traders believe the copper market will have to settle into a lower trading level until the end of the northern hemisphere summer, when reduced industrial activity keeps demand for the metal low. They will be watching today's LME warehouse stocks report for some indication of a resumption of physical activity; after a long decline stocks began rising at the start of this

month, since which they have gone up 4.5 per cent.

Other LME markets held relatively steady. Notable among these was aluminium, which closed at \$1,487 a tonne, down just \$2.50 on the day, despite disappointment with the latest set of production figures from the International Primary Aluminium Institute.

Traders had been hoping that the figures, for July, would show that multilateral agreement output cuts were still eating into stocks of the metal,

which remain excessively high. But at 33,000 tonnes a day July production was unchanged from June (though 2,100 below July, 1993).

"One month's figure does not mean much," said Reuters, "but we will have to watch the situation closely."

Aluminium market watchers have been warning that current price levels - 30 per cent up from the end of last year - could discourage some producers from curbing output.

Business as usual for rubber pact

Rubber producers did not renew demands for higher reference prices at an International Natural Rubber Organisation meeting here yesterday, leaving the group free to sell rubber at current prices, officials said, reports Reuters from Kuala Lumpur.

Mr Aldo Hofmeister, Iuro's outgoing buffer stock manager, said his executive committee decided to continue with current buffer stock sales without changing the reference price.

"The executive council has decided to continue selling," he said after the conclusion of the special executive meeting. Most of Iuro's 26 members attended.

Iuro began selling from its 220,000-tonne buffer stock on July 8 after world prices spiralled to 5-year highs.

The group has sold most of its stockpile, except for unspecified amounts in its US and British warehouses, but the disposals have failed to cool the world market.

Mr Hofmeister said the option to revise the reference price, which guide the buffer stock manager in buying or selling, was mentioned but not discussed.

"All three options of either suspending, reviewing the rate of sales or revising the reference price were brought up but the council decided on the status quo," he added.

Producing countries have long demanded higher reference prices - an issue holding up negotiations for a new price stabilisation pact, the International Natural Rubber Agreement III.

The second round of talks to negotiate Iuro III will be held in Geneva from October 3 to 14.

Several delegates who attended Monday's meeting said none of the delegates from the producing countries discussed the reference price issue.

"The producers must be satisfied with the price as it is," one delegate said.

Iron ore market expected to build on recent recovery

By Frances Williams in Geneva

The recovery in the world iron ore market that began last year picked up strength in 1993 and should accelerate in 1994, according to the United Nations Conference on Trade and Development.

It says next year should see the long-awaited reversal of three successive years of declining iron ore prices.

World iron ore exports rose by nearly 8 per cent to 388m tonnes in 1993, leading to a marked reduction in exporters' stocks, while global iron ore output rose by 2.5 per cent to 942m tonnes. The stimulus from the booming Chinese economy more than offset a sharp drop in mining and steel-making in the former Soviet Union, the report notes.

China imported more than 30m tonnes of steel last year, boosting steel output (and thus iron ore consumption) in all the main steel-exporting nations. Iron ore imports also soared, by 30 per cent, confirming China's position as the world's most dynamic market for current and future iron ore demand.

Already the largest iron ore producer, China mined 255m tonnes last year, an increase of nearly 15 per cent over 1992. However, domestic production meets only 70 per cent of the country's needs. Unmet points out, China's iron ore consumption rose 16.6 per cent to 258m tonnes in 1993 or more than a quarter of the world total.

Unmet says that world iron ore trade remained strong in the first half of 1994, propelled by even faster growth of Chinese demand, smaller than

expected declines in Japan and accelerating economic recovery in most other regions. It expects "a significant upsurge" in global steel and iron ore demand in 1995 which "means well for the recovery of iron ore prices".

Prices have come under pressure from leading consuming countries on the one hand and from strong competition among suppliers on the other, threatening the profitability of the industry and especially high-cost producers. However, Unctad says falling prices have not dissuaded the industry from investing in replacement and additional capacity.

Review of the Current Situation and Outlook for Iron Ore 1994 (T.D.B. C.V.1-1994) are available from Unctad, Palais des Nations, CH 1211 Geneva 10.

Bull market forecast to resume in October

By Kenneth Gooding, Mining Correspondent

Copper's bull market has some way to run and prices are likely to peak at above \$1.50 a pound (\$2,445 a tonne) in the first half of 1995, suggests the Bloomsbury Minerals Economics consultancy organisation.

The sale of surplus copper stocks may depress prices later this month and September to the \$1.40-\$1.45-a-pound range (\$2,240 to \$2,314 a tonne), but they are likely to start firming again in October.

It will not be until the second half of 1995 that the copper market will see a slight supply surplus again, "signalling the probable end of the bull phase," BME suggests in its latest Copper Briefing Service newsletter.

Mr Peter Hollands, the editor, points out that western world copper consumption is on track for a 500,000-tonne rise to 5.5 to 6 per cent increase this year - to 9,855m tonnes - and one of 350,000 tonnes, or 3.5 to 4 per cent, in 1995.

Compared with that, western world copper output can be expected to slip by 50,000 tonnes or 0.5 per cent to 9,045m tonnes this year because a 100,000-tonne increase in Latin American output will be more than offset by falls in Japan and Europe caused by shortages of custom concentrates and blister (intermediate materials). Next year, however, western world production is set to grow by about 300,000 tonnes or 5.5 to 6 per cent.

Even though net imports from the former eastern bloc countries can be expected to

rise from 225,000 tonnes last year to 335,000 tonnes, there will still be a supply deficit of 255,000 tonnes in 1994, BME suggests. It expects the deficit to fall to 110,000 tonnes in 1995.

However, in the first half of 1995 a deficit of about 115,000 tonnes is forecast and, as a result, by mid-year western stocks will fall to just under 1m tonnes - equivalent to only 5.3 weeks of consumption.

Mr Hofmeister said the option to revise the reference price, which guide the buffer stock manager in buying or selling, was mentioned but not discussed.

Norilsk problems seen hitting Russian nickel sales

By Kenneth Gooding

Problems at Norilsk, the world's biggest nickel producer, are likely to cause Russian exports of the metal to the west to fall to about 95,000 tonnes this year, a 14 per cent drop from the 110,000 tonnes expected at the beginning of 1994, according to Mr Jim Lennon, analyst at Macquarie Securities, part of the Australian banking group.

There was a two-day strike at Norilsk earlier this month because of persistent non-payment of salaries, Mr Lennon points out. There is evidence that Norilsk is being starved of cash for even routine maintenance because the Russian government is taking 80 per cent of the profit on nickel in

tax and all Norilsk's platinum group metals profits.

The recently privatised Norilsk still owes its workforce about Rb150bn (\$45m) and the company says that the city of Norilsk needs Rb 2,000bn to repair its infrastructure.

Mr Lennon recalls that the nickel market in the west was tipped into a massive supply surplus by Russian exports which rose from 70,000 tonnes in 1988 to a peak of 180,000 tonnes (including secondary, or recycled, material) in 1992. Between 1991 and 1993, nickel stocks in the west rose by nearly 150,000 tonnes, most of the excess accumulating at Russian cathode in London Metal Exchange warehouses.

This forced down prices to an all-time low in real terms of

\$1.83 a lb at the end of September last year. Since then, prices have recovered despite a continued rise in stocks because of money pouring into the nickel market from investment funds.

Mr Lennon says that about 28,000 tonnes of Russian nickel, which had been stockpiled in Russia during the winter, arrived in the west in July and August. Only 6,000 tonnes found its way to LME warehouses and the rest is assumed to have gone directly to end-users, or has been stockpiled, possibly as collateral for loans.

Demand in the west for nickel - used primarily in the production of stainless steel - is growing strongly and consumption is forecast by Mr Lennon to rise by 6.7 per cent to 713,000 tonnes this year and

by a further 8.9 per cent to 776,700 tonnes in 1995.

However, the recent price rise has encouraged western producers to increase output and he predicts that production will rise by 5.6 per cent this year to 589,300 tonnes and next year climb to 629,000 tonnes. Once imports from the former eastern bloc are taken into account, this will leave the western market with a small deficit this year but one of more than 30,000 tonnes in 1995.

Mr Lennon sees three months delivery nickel prices on the LME rising to \$3 a pound (\$8,612 a tonne) by the year-end to give a 1994 average price of \$2.55 (\$5,840), rising to an average of \$3.30 (\$7,273) next year.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Associated Metal Trading)

ALUMINIUM, 99.7 PURITY (\$ per tonne)

	Close	Settle
1457-8	1458.5-7.5	
Previous	1458.0-1.5	1458.0
High/Low	1459.0-1.5	1458.0
AM Official	1459.0-1.5	1458.0
Kerb close	1459.0-1.5	1458.0
Open int.	275,006	
Total turnover	37,208	

ALUMINIUM ALLOY (\$ per tonne)

	Close	Settle
1515-20	1535-40	
Previous	1535-40	1535-40
High/Low	1535-40	1535-40
AM Official	1535-40	1535-40
Kerb close	1535-40	1535-40
Open int.	2,785	
Total turnover	405	

LEAD (\$ per tonne)

	Close	Settle
564-5	562-3	
Previous	562-3	562-3
High/Low	562-3	562-3
AM Official	562-3	562-3
Kerb close	562-3	562-3
Open int.	40,234	
Total turnover	9,101	

NICKEL (\$ per tonne)

	Close	Settle
5695-700	5785-90	
Previous	5695-700	5785-90
High/Low	5695-700	5785-90
AM Official	5695-700	5785-90
Kerb close	5695-700	5785-90
Open int.	56,954	
Total turnover	12,044	

TIN (\$ per tonne)

	Close	Settle
5180-85	5280-85	
Previous	5180-85	5280-85
High/Low	5180-85	5280-85
AM Official	5180-85	5280-85
Kerb close	5180-85	5280-85
Open int.	12,771	
Total turnover	4,854	

ZINC, special high grade (\$ per tonne)

	Close	Settle
940.5-1.5	954.5-5.0	
Previous	939.5-4.5	954.5-5.0
High/Low	939.5-4.5	954.5-5.0
AM Official	939.5-4.5	954.5-5.0
Kerb close	939.5-4.5	954.5-5.0
Open int.	100,246	
Total turnover	20,900	

COPPER, grade A (\$ per tonne)

	Close	Settle
2374.5-5.5	2391.5-2.5	
Previous	2374.5-5.5	2391.5-2.5
High/Low	2374.5-5.5	2391.5-2.5
AM Official	2374.5-5.5	2391.5-2.5
Kerb close	2374.5-5.5	2391.5-2.5
Open int.	212,230	
Total turnover	51,088	

LME ALUMINIUM 2 1/2 YEAR 1,5476

LME Closing 2 1/2 year 1,5512

SPECIAL 1,5517 3 months 1,5501 6 months 1,5480 9 months 1,5442

HIGH GRADE COPPER (COMEX)

	Close	Settle
107.05	107.10	107.00
107.10	107.10	107.00
107.10	107.10	107.00
107.10	107.10	107.00
107.10	107.10	107.00
107.10	107.10	107.00
107.10	107.10	107.00
107.10	107.10	107.00
107.10	107.10	107.00

PRECIOUS METALS

LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

	\$ price	£ equiv.
Gold (100 oz)	382.50-382.90	
Open	381.70-382.10	
Morning fix	381.60	246.432
Afternoon fix	382.60	247.078
Day's High	383.00-383.40	
Day's Low	381.40-381.80	
Previous close	381.80-382.20	

Loco Lds Mean Gold Lending Rates (No US\$)

1 month 4.25 6 months 4.52 12 months 4.89 3 months 4.31

Silver fix

	p/roy oz	US \$ equiv.
Spot	327.85	522.25
3 months	327.85	522.25
6 months	327.85	522.25
9 months	327.85	522.25
12 months	327.85	522.25

Precious Metals continued

GOLD COMEX (100 Troy oz; \$/troy oz)

	Sett price	Day's change	High	low	Open Int
Aug	381.7	-0.2	382.5	381.5	183
Sep	382.3	-0.2	-	-	200
Oct	382.3	-0.2	385.0	383.1	9,879
Dec	386.7	-0.2	388.1	385.9	92,445
Feb	390.0	-0.2	391.1	389.5	12,965
Apr	393.3	-0.2	-	-	6,285
Total					167,391

LONDON STOCK EXCHANGE

MARKET REPORT

FT-SE 100 fails to hold on to early gains

By Steve Thompson

The London equity market launched another determined attack on the 3,200 level on the FT-SE 100 index. But, as with previous recent attempts, it was rebuffed and the index finished the session weaker after suffering a sharp decline in mid-afternoon.

At the close the FT-SE index was 20.1 lower at 3,171.3, while the FT-SE Mid 250 index, bolstered by another strong performance by many utility stocks, ended 4.1 off at 3,749.8.

Once again it was a sharp sell-off in international bonds that triggered a reversal in equities, although there were plenty of reasons for taking short-term profits in UK equities, dealers said. They also pointed out that the UK equity mar-

ket had outperformed its European counterparts for much of the day reflecting sizeable switching across the Continent.

London was badly affected by a steep upward revision of Gross Domestic Product for the second quarter which revived worries in London that the economy may need to be restrained in order to choke off inflationary pressures.

Earlier, the trading session begun with the equity market in good form. Market-makers hoisted prices at the outset, with the FT-SE 100 almost seven points ahead of the opening and looking to go better as gilt-edged stocks made progress.

However, the GDP figure and a sudden sharp fall in German bonds caught the market on the hop, and a near 10-point rise around 9.00am was transformed into a near-10

point fall within an hour. The next downward lurch occurred as Wall Street opened sharply lower and 16 points down, before staging a moderate rally.

The FT-SE 100 hit the day's low point of 3,164.7, down 26.7, shortly after US markets opened but then stabilised as cheap buyers emerged.

Senior dealers expressed no real surprise at the market's decline, pointing to the relatively low level of activity in London where turnover came out at 499.1m shares, well down on recent levels. Non-FT-SE stocks accounted for almost 82 per cent of turnover in equities.

Customer business was also said to have suffered yesterday and was expected to come in lower than last Friday's 1.27m figure.

Market strategists were uneasy over the GDP numbers. One said

that although economic growth was strong there were definite signs that inflationary pressures were increasing. "The details mean that second quarter profits will be better than the market is currently looking for and could also mean there will be a shift out of bonds, where the market will fret about inflation, and into equities," said one market observer.

A senior trader at one of the UK integrated securities houses said that while the London market felt okay at current levels and that there had been no real selling pressure, he was concerned at the absence of support from London institutions when the big European markets fell away.

The banking sector provided the FT-SE 100's best individual performer in NatWest where analysts

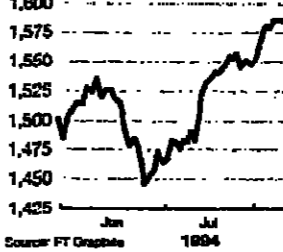
were predicting a strong chart break-out and forecasting a short-term level of 510p. NatWest's potential outperformance would come at the expense of Barclays and HSBC, it was said.

Utilities were again heavily traded with Smith New Court said to have been recommending a switch from selective electricity stocks into water shares.

Nikko, the Japanese-owned stockbroker said it was hard to see what was going to inspire the market in the short term, with no important economic data this week to inspire or deter the market. The broker did point out, however, that the market has been boosted of late by bid rumours and that a cash bid in the FT-SE 100 would provide the momentum for the FT-SE to break through the 3,200 level.

FT-SE-A All-Share Index

Turnover by volume (trillion) Excluding intra-market business and overseas turnover



Key Indicators

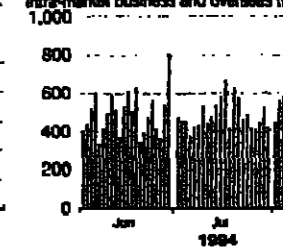
Indices and ratios				
FT-SE 100	3171.3	-20.1	FT Ordinary Index	2486.4
FT-SE Mid 250	3749.8	-4.1	FT-SE-A Non-Fin p/e	19.75
FT-SE-A 350	1603.0	-8.2	FT-SE 100 Div. Sep	3183.0
FT-SE-A All-Share	1590.7	-7.49	10 yr. Div. yield	8.74
FT-SE-A All-Share yield	3.75	(3.74)	Long-term yield rate	2.35

Best performing sectors

1 Water	+1.5	2 Electronic & Elec Equip	+1.4	3 Telecommunications	+0.9
4 Building & Construction	+0.6	5 Gas Distribution	+0.0	6 Life Assurance	+1.0

Equity Shares Traded

Turnover by volume (trillion) Excluding intra-market business and overseas turnover



Glaxo up on talk of US link

Pharmaceuticals giant Glaxo Holdings resisted the market's nervousness as the legacy of US buying at the end of last week was helped by support ahead of figures in a fortnight and takeover optimism.

Reports in the Sunday press that Glaxo was preparing a link with PCS, the US pharmacy benefits management

company recently acquired by Eli Lilly gave an early lift to the stock which was up 11 at best.

This was further helped by optimism over the full-year dividend. Pharmaceuticals analyst Mr Robin Gilbert of Paragon Gordon spoke at the morning meeting and argued that the company would announce a second-half dividend of 18p this year against 15p last year, giving 27p for the full year.

Glaxo is set to announce its figures for the year to June on September 8 and expected to publish profits of around £1,850m against £1,676m last year. The shares ended the day

3 better at 639p.

Milk concerns

Shares in Unigate and Northern Foods, two of the UK's leading dairy producers, eased after both groups issued profit warnings as a row about government plans to deregulate the milk industry moved into the public domain.

Speaking at the City of London Trade Federation, both companies said current profits would be hit by £10m and £15m respectively on signing up to supply contracts with Milk Marque, the successor to the Milk Marketing Board.

The plans are due to take

effect in November and both companies said they were reluctant to sign the deals as they would lead to lower profits, job cuts and price rises.

The DTF said yesterday it was seeking judicial review over the government's handling of the programme.

Unigate gave up 8 to 374p, in trade of 2.2m and Northern relinquished 6 to 216p, on volume of 4.6m. Several brokers said they were considering downgrading current-year profits estimates by the stated figures.

Mr Carl Short at Strauss Turnbull said: "The possibility of farmers creaming off higher profits, partly at the expense of

consumers could lead the government to consider setting up a regulatory body to oversee Milk Marque policy."

Newspapers up

The beginning of the end of the newspaper price war was in sight as the Sun raised its cover price and the rest of the sector breathed a sigh of relief and saw their share prices respond accordingly.

Some of the more hardened publishing analysts suggested that the decision by Mr Murdoch's flagship tabloid to lift its price by 10 pence to 22p was typically timed to soften the effect of News Corp's full year figures tomorrow. The company is expected to announce profits of £322m (£134.2m) against £350.5m last time and much of the hit will have come from the Sun and Times price cuts.

Daily Mail Group bounced 10 to 1025p, Mirror Group 2 to 145p and Daily Express parent United Newspapers 4 to 547p. However, the Telegraph fell 10 to 388p. S.G. Warburg consider 355p as a fair price for the stock following the group's hit from its price cut in June.

Water stocks performed well as one securities house was said to be recommending them as an income fund play in preference to some regional electricity companies.

Smith New Court was mentioned as the motor behind the price moves although the house specialists said their influence was exaggerated. Nevertheless the leading water

NEW HIGHS AND LOWS FOR 1994

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EQUITY FUTURES AND OPTIONS TRADING

A recovery in UK gilts helped stock index futures rally off the day's low in a session that was dominated by renewed fears of inflation and higher interest rates.

FT-SE 100 INDEX FUTURES (LFFE) 25p per full index point (APV)

FT-SE MID 250 INDEX FUTURES (LFFE) 25p per full index point

FT-SE MID 250 INDEX FUTURES (OMLX) 25p per full index point

FT-SE 100 INDEX OPTION (LFFE) 25p per full index point

FT-SE MID 250 INDEX OPTION (LFFE) 25p per full index point

FT-SE MID 250 INDEX OPTION (OMLX) 25p per full index point

FT-SE 100 INDEX OPTION (OMLX) 25p per full index point

FT-SE MID 250 INDEX OPTION (OMLX) 25p per full index point

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TRADING VOLUME

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Major Stocks Yesterday

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LIFE EQUITY OPTIONS

Life Equity Options

Life Equity Options

HEALTH CARE - Cont.

INVESTMENT TRUSTS - Cont.

هكذا عند الاصل

TRANSPORT - Cont.

هنا اقول الحق

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

Capital House Unit Test Mgrs (1200)F
Capital House, Festival Square, Edinburgh.
031-323 1672

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INSURANCES

فتاوى ابن الاثير

فمنها من اصل

Wavenet Unit Test Material End of Run					Wavenet Unit Test Material End of Run					Wavenet Unit Test Material End of Run					Wavenet Unit Test Material End of Run				
Job	Order	Price	Cost	Profit	Job	Order	Price	Cost	Profit	Job	Order	Price	Cost	Profit	Job	Order	Price	Cost	Profit
1	1	100	80	20	1	1	100	80	20	1	1	100	80	20	1	1	100	80	20
2	2	100	80	20	2	2	100	80	20	2	2	100	80	20	2	2	100	80	20
3	3	100	80	20	3	3	100	80	20	3	3	100	80	20	3	3	100	80	20
4	4	100	80	20	4	4	100	80	20	4	4	100	80	20	4	4	100	80	20
5	5	100	80	20	5	5	100	80	20	5	5	100	80	20	5	5	100	80	20
6	6	100	80	20	6	6	100	80	20	6	6	100	80	20	6	6	100	80	20
7	7	100	80	20	7	7	100	80	20	7	7	100	80	20	7	7	100	80	20
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12	12	100	80	20	12	12	100	80	20	12	12	100	80	20	12	12	100	80	20
13	13	100	80	20	13	13	100	80	20	13	13	100	80	20	13	13	100	80	20
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16	16	100	80	20	16	16	100	80	20	16	16	100	80	20	16	16	100	80	20
17	17	100	80	20	17	17	100	80	20	17	17	100	80	20	17	17	100	80	20
18	18	100	80	20	18	18	100	80	20	18	18	100	80	20	18	18	100	80	20
19	19	100	80	20	19	19	100	80	20	19	19	100	80	20	19	19	100	80	20
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INSURANCES

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مكتبة ابن الاثير

FT MANAGED FUNDS SERVICE

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CURRENCIES AND MONEY

MARKETS REPORT

Swedish krona recovers

A combination of fundamental and technical factors yesterday helped the Swedish krona stage a sharp recovery on the foreign exchanges, writes Philip Gauthier.

The currency improved on the back of a better tone in the bond markets, helped by investors who were short of the currency at the end of last week, needing to square their positions.

The krona finished in London at SKr4.933 against the D-Mark from SKr4.908 at Friday's close.

Elsewhere, the dollar and sterling continued to suffer at the hands of the firmer D-Mark. The dollar closed at DM1.5308, from DM1.5396, and at Y97.96 from Y98.47.

Sterling finished over a pence lower at DM2.329 from DM2.358. Against the dollar, however, it was firmed, closing at \$1.5501 from \$1.5493. Analysts said that both the dollar and the pound were the victims of poor sentiment, rather than concerted selling pressure.

In Europe the D-Mark was little changed. It closed at FF4.430 against the French franc, from FF4.431. Against the Italian lira it closed at LI.020 from LI.021.

The catalyst for the recovery in the krona was last Friday's fiscal proposals from the opposition Social Democratic Party, predicted to win next month's general election. The market, concerned by Sweden's large budget deficit, was impressed by the SDP's plans to reduce the budget by SKr6bn over the coming four years.

Sentiment was also helped by comments from Skandia, the large insurer, on the basis of the SDP proposals that it would be prepared to buy Swedish state bonds again. Markets were recently shocked by Skandia's decision to boycott purchases of state bonds owing to the country's weak fiscal position.

Mr Keld Holm, international economist at Lehman Brothers in London, said the krona had quite significant momentum in the longer term, with the potential to appreciate to SKr4.80 over the next year.

In the short term, however,

Swedish Krona

Against the D-Mark (SKr per DM)

4.9

4.9

5.0

5.1

Aug 1994

Source: Datastream

■ Pooled in New York

Aug 22

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
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POUND SPOT FORWARD AGAINST THE POUND

Aug 22		Closing mid-point	Change on day	Spread	Day's high/low	One month %/PA	Three months %/PA	One year %/PA	Bank of England index		
Europe											
Austria	(Sch)	16.7173	-0.0572	056 - 243	16.7335 16.6835	16.7120	0.3 16.7011	0.4	-	115.7	
Belgium	(Bfr)	48.8888	-0.2529	688 - 974	49.1872 48.9070	48.8708	0.4 48.9488	-0.5	49.0236	-0.3	117.4
Denmark	(DKr)	9.3390	-0.0499	878 - 946	9.3410 9.3363	9.4203	-1.2 9.3458	-1.5	9.4687	-0.8	118.9
Finland	(Fmk)	7.4688	-0.0571	731 - 767	7.4938 7.4253	-	-	-	-	-	119.0
France	(FFr)	1.3368	-0.0434	304 - 407	1.3388 1.3379	1.3407	-0.6 1.3427	-0.3	1.3410	0.2	119.0
Germany	(DM)	2.3190	-0.0107	710 - 740	2.3482 2.2998	2.2729	0.0 2.3108	0.3	2.2441	1.2	117.8
Greece	(Dr)	360.292	-1.652	070 - 391	361.700 359.678	-	-	-	-	-	119.0
Ireland	(Ir£)	1.3368	-0.0434	304 - 407	1.3416 1.3369	1.3431	0.1 1.3411	-0.1	1.3196	-0.1	100.7
Italy	(L)	2421.03	-17.10	953 - 250	2435.38 2370.41	2428.53	-3.7 2444.18	-3.8	2403.88	-2.1	75.0
Japan	(Yen)	16.7173	-0.0572	056 - 243	16.7335 16.6835	16.7120	0.3 16.7011	0.4	-	-	115.7
South Korea	(Won)	16.7173	-0.0572	056 - 243	16.7335 16.6835	16.7120	0.3 16.7011	0.4	-	-	115.7
Spain	(Pta)	16.7173	-0.0572	056 - 243	16.7335 16.6835	16.7120	0.3 16.7011	0.4	-	-	115.7
Sweden	(SKr)	11.7006	-0.2384	981 - 150	11.9453 11.6607	11.7281	-2.2 11.7786	-2.5	11.9991	-2.5	74.4
Switzerland	(Sfr)	2.0011	-0.0003	989 - 023	2.0033 1.9997	2.0036	0.0 1.9965	1.8	1.965	1.8	121.9
UK	(£)	-	-	-	-	-	-	-	-	-	79.2
USA	(\$)	-	-	-	-	-	-	-	-	-	-
Canada	(Cdn\$)	-	-	-	-	-	-	-	-	-	-
South Africa	(Rand)	-	-	-	-	-	-	-	-	-	-
India	(Rupee)	-	-	-	-	-	-	-	-	-	-
China	(Yuan)	-	-	-	-	-	-	-	-	-	-
Hong Kong	(Dollar)	-	-	-	-	-	-	-	-	-	-
Malaysia	(Ringgit)	-	-	-	-	-	-	-	-	-	-
Philippines	(Peso)	-	-	-	-	-	-	-	-	-	-
Singapore	(Dollar)	-	-	-	-	-	-	-	-	-	-
Thailand	(Baht)	-	-	-	-	-	-	-	-	-	-
Indonesia	(Rupiah)	-	-	-	-	-	-	-	-	-	-
Maldives	(Rufiyaa)	-	-	-	-	-	-	-	-	-	-
Mauritius	(Rupee)	-	-	-	-	-	-	-	-	-	-
Botswana	(Pula)	-	-	-	-	-	-	-	-	-	-
Lesotho	(Loti)	-	-	-	-	-	-	-	-	-	-
Swaziland	(Lil)	-	-	-	-	-	-	-	-	-	-
Colombia	(Peso)	-	-	-	-	-	-	-	-	-	-
Brazil	(R)	-	-	-	-	-	-	-	-	-	-
Mexico	(C\$)	-	-	-	-	-	-	-	-	-	-
Canada (New Peso)	5.1384	-0.097	295 - 330	4.73	5.2028 5.1121	2.1316	0.3 2.1307	0.3	2.1386	-0.3	85.9
USA	R	1.5501	-0.0108	437 - 594	1.5528 1.5455	1.5499	0.2 1.5485	0.4	1.5373	0.6	62.2
South Africa	(Rand)	-	-	-	-	-	-	-	-	-	-
Australia	(A\$)	2.1042	-0.0081	039 - 054	2.1078 2.0982	2.1042	0.0 2.1055	-0.2	2.1026	-0.9	-
Hong Kong	(H\$)	11.9788	-0.0135	740 - 803	11.9974 11.9422	11.9729	0.4 11.9718	0.2	11.9788	0.0	-
India	(R)	48.6135	-0.0439	497 - 328	48.7100 48.4750	-	-	-	-	-	-
China	(Y)	24.6135	-0.0439	248 - 328	24.7100 24.4750	-	-	-	-	-	-
Malaysia	(M\$)	3.9542	-0.0085	528 - 568	3.9682 3.9298	3.9543	3.1 150.638	3.2	145.918	3.9	190.7
New Zealand	(NZ\$)	2.5658	-0.0023	841 - 874	2.5682 2.5776	2.5687	-1.8 2.5975	-1.8	2.6198	-1.3	-
Philippines	(P\$)	40.6989	-0.0472	922 - 556	41.0378 40.1850	-	-	-	-	-	-
Singapore	(S\$)	5.6134	-0.0058	118 - 145	5.6226 5.5966	-	-	-	-	-	-
Thailand	(T\$)	2.2266	-0.0003	263 - 279	2.2326 2.2204	-	-	-	-	-	-
S Africa (Com'n)	(R)	5.5418	-0.0064	384 - 434	5.5452 5.5267	-	-	-	-	-	-
S Africa (Fin.)	(R)	7.0605	-0.1396	434 - 776	7.0782 6.9873	-	-	-	-	-	-
South Korea	(W\$)	1245.48	-1.15	555 - 730	1248.72 1243.25	-	-	-	-	-	-
Thailand	(T\$)	48.6129	-0.1182	561 - 591	48.7271 48.7220	-	-	-	-	-	-
Telaviv	(S\$)	38.6970	-0.0294	805 - 135	38.7630 38.6135	-	-	-	-	-	-
*USD rate for Aug 19. Bid/offer spreads in the Pound Spot table show only the bid; the three decimal places, Forward rates are only for currency quoted to the nearest 100 pips implied by current interbank rates. The Dollar Spot table shows the Dollar Bid/offer spread in the W&M/Reuters CLOSING SPOT Rates. Some values are rounded by the F.T.											

INDICES										US INDICES									
Aug 22	Aug 18	Aug 18	High	Low	Aug 22	Aug 18	Aug 18	High	Low	Dow Jones	Aug 18	Aug 17	Aug 17	1994	Low	Share compilation	Low		
Amex Composite (25/12/77)	2022.40	2013.45	2047.00	1812	1778.00	2004				Industrials	3755.11	3755.43	3776.48	3678.38	3787.04	3678.38	41.22		
Amex 100 (25/12/77)	2022.40	2013.45	2047.00	1812	1778.00	2004				Non-Beds	57.74	57.78	57.90	105.81	105.83	105.77	54.38		
Amex 200 (25/12/77)	2022.40	2013.45	2047.00	1812	1778.00	2004				Transport	159.20	159.20	161.54	159.20	159.20	159.20	159.20		
Amex 300 (25/12/77)	2022.40	2013.45	2047.00	1812	1778.00	2004				Utilities	157.78	157.78	158.04	157.78	157.78	157.78	157.78		
Amex 400 (25/12/77)	2022.40	2013.45	2047.00	1812	1778.00	2004				DJ Ind. Div's High	3755.11	3755.43	3776.48	3678.38	3787.04	3678.38	41.22		
Amex 500 (25/12/77)	2022.40	2013.45	2047.00	1812	1778.00	2004				DJ Ind. Div's Low	3755.11	3755.43	3776.48	3678.38	3787.04	3678.38	41.22		
Amex 600 (25/12/77)	2022.40	2013.45	2047.00	1812	1778.00	2004				Standard and Poors	453.88	453.17	455.17	452.88	453.92	454.19	4.40		
Amex 700 (25/12/77)	2022.40	2013.45	2047.00	1812	1778.00	2004				Composite 1	542.81	542.10	543.84	540.89	541.05	541.05	1.52		
Amex 800 (25/12/77)	2022.40	2013.45	2047.00	1812	1778.00	2004				Industrials	45.81	45.81	45.81	45.81	45.81	45.81	45.81		
Amex 900 (25/12/77)	2022.40	2013.45	2047.00	1812	1778.00	2004				Financial	542.81	542.10	543.84	540.89	541.05	541.05	1.52		
Amex 1000 (25/12/77)	2022.40	2013.45	2047.00	1812	1778.00	2004				NYSE Comp.	255.31	255.40	256.40	257.71	258.71	259.71	3.54		
Amex 1100 (25/12/77)	2022.40	2013.45	2047.00	1812	1778.00	2004				Amex Mid Vol	445.45	445.55	446.55	447.55	448.55	449.55	2.51		
Amex 1200 (25/12/77)	2022.40	2013.45	2047.00	1812	1778.00	2004				NASDAQ Dow	742.48	742.17	742.55	743.55	744.55	745.55	5.87		
Amex 1300 (25/12/77)	2022.40	2013.45	2047.00	1812	1778.00	2004				NYSE Comp.	255.31	255.40	256.40	257.71	258.71	259.71	3.54		
Amex 1400 (25/12/77)	2022.40	2013.45	2047.00	1812	1778.00	2004				Amex Mid Vol	445.45	445.55	446.55	447.55	448.55	449.55	2.51		
Amex 1500 (25/12/77)	2022.40	2013.45	2047.00	1812	1778.00	2004				NASDAQ Dow	742.48	742.17	742.55	743.55	744.55	745.55	5.87		
Amex 1600 (25/12/77)	2022.40	2013.45	2047.00	1812	1778.00	2004				NYSE Comp.	255.31	255.40	256.40	257.71	258.71	259.71	3.54		
Amex 1700 (25/12/77)	2022.40	2013.45	2047.00	1812	1778.00	2004				Amex Mid Vol	445.45	445.55	446.55	447.55	448.55	449.55	2.51		
Amex 1800 (25/12/77)	2022.40	2013.45	2047.00	1812	1778.00	2004				NASDAQ Dow	742.48	742.17	742.55	743.55	744.55	745.55	5.87		

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S Korea's economy 'to grow 8.3%'

By John Burton in Seoul

South Korea's economy is expected to grow 8.3 per cent in 1994, but will slow slightly to a rate of 7.6 per cent next year, according to the state-funded Korea Development Institute, the country's leading economic policy group.

The buoyant figures for gross national product represent a recovery after two years of sluggish growth: 4.7 per cent in 1992 and 5.6 per cent in 1993, the lowest in more than a decade.

Renewed growth is based on higher exports, which have risen 12.9 per cent during the first seven months of 1994, as demand increases in the industrialised world and the Korean won weakens against the strong Japanese yen.

The export boom has fuelled industrial investments in plant expansion as production capacity becomes strained, with the operation ratio for manufacturing companies reaching 83.3 per cent in June. Total industrial investments are expected to rise 72 per cent for the year, according to Barings Securities in Seoul.

But the healthy economic growth is creating new problems for South Korea in terms of a current account deficit and inflation.

Korea's dependence on imports of Japanese components and machinery, coupled with the strong Japanese yen, is likely to increase its trade deficit with Tokyo to at least \$10bn (\$8.6bn) this year from \$9.5bn in 1993.

This will contribute to a current account deficit of \$2.1bn for the year, despite increased capital inflows as Korea gradually opens its financial markets. The economic recovery is also increasing inflationary pressure, with prices threatening to exceed the government's inflation target of 6 per cent this year.

Analysts worry that higher interest rates caused by rising

South Korea

Real GDP growth, annual % change



Source: DataStream

credit demand and tighter monetary controls imposed by the government to curb inflation will cut short the economic recovery.

The Korea Development Institute proposes that the government cut its budget and raise taxes to prevent the economy overheating, as an alternative to strict control of money supply. This would avoid the mistakes in the early 1990s, when a government-ordered credit squeeze led to the period of low growth in 1992-93.

None the less, a rise in interest rates appears inevitable because of credit demand. Higher financial costs and the gradual appreciation of the Korean won against the US dollar will be the main factors behind the slowdown in GNP growth next year.

● The South Korean and US military began war simulation exercises yesterday, the Defence Ministry said, AP reports from Seoul. The annual "Ullim Focus Lens" exercises began despite North Korea's threats last week that the war games would strain inter-Korean relations.

The exercise tests the combat capabilities of the joint forces, even though no actual troop movements are involved. Under computer simulation, the 650,000-member South Korean forces and 36,000 US troops face off against North Korea.

Tokyo thoughts turn to political weddings

Japanese parties may make their trial marriages more permanent, reports Gordon Cramb

In the eighth week of their cohabitation, the unlikely political bedfellows of the Japanese government are getting along well enough to push general election prospects a year away or more. There is even stray talk of a more permanent arrangement.

The government is headed by Mr Tomiichi Murayama of the Social Democratic party, the country's first socialist prime minister since 1947, but the main ministerial posts are occupied by conservatives from the Liberal Democratic party which had run Japan for more than four decades until last summer.

The two parties are traditional adversaries. But Mr Koichi Kato, the LDP policy chief, has been quoted as saying that his party should hold talks with the SDP's trade union backers to achieve a merger.

Strictly, the current arrangement is a *menage à trois*, with the New Harbinger party, run by Mr Masayoshi Takemura, now stuck awkwardly in the middle of the two much older parties. In the absence of an early breakup, the next election will be fought in new constituency boundaries, and last political arithmetic suggests that a formal LDP-SDP combine would be best placed to fight it.

Such a move would also be

intended to counter the creation of an opposition super-party which has been proposed among recent LDP defectors and members of the minority coalition which was ousted at the end of June.

Both merger ideas reflect the introduction, under a system of state political funding to replace the previous discredited quest for corporate and other donations, of rules which entitle large parties to more campaign funds from central coffers than would be obtained by a loose grouping of smaller political units.

Neither political wedding will necessarily be rushed, if held at all.

A consultative council linking nine opposition groupings is due to be formed early next month. But many opposition MPs are wary of any closer involvement with Mr Ichiro Ozawa, chief strategist of the Japan Renewal party, whose perceived high-handedness in dealings with coalition partners contributed to the fall in June of the government led by Mr Tomomi Hata.

Mr Ozawa will remain co-leader of the JRP along with Mr Hata after the party last week rejected his offer to step down.

The Rengo trade union confederation is less than happy with the direction taken by the



Takemura: stuck in middle



Murayama: party conversion



Kato: eyeing trade unions

SDP, and a number of union activists are calling for Rengo to establish its own party.

As a whole, however, the Japanese public is coming round to the apparently unusual idea of a left-right combination. Approval ratings for the Murayama cabinet have risen from a low base since it won office to around 55 per cent now.

The policy issues of the day have so far given rise to no publicly expressed discord.

The LDP and SDP have common interests to protect: ● Agricultural subsidies, as each relies significantly on the rural vote. The gradual opening of the country's rice mar-

ket will not mean that those who farm the staple will receive any less government money this year, keeping consumer costs high.

● Public sector jobs, where the LDP has an influential constituency among bureaucrats, and the SDP is backed by many lower-ranking staff.

Deregulation, the catchcry of the past two governments, has suddenly slipped out of daily use.

● Lifetime employment in the private sector, so that jobless figures do not rise as the recession draws to a close. The LDP's Mr Shizuka Kamet, the transport minister, this month slapped down a plan by the big

three airlines to hire new staff on short-term contracts, and dissent came from the business community alone.

The only issue which has caused difficulties is one dating back 49 years. As Mr Murayama sets off for Manila today at the start of an eight-day South-East Asian tour, no consensus has emerged on how to atone for Japan's wartime misdeeds.

On his visit to the Philippines, Vietnam, Malaysia and Singapore he may come bearing little except expressions of remorse.

LDP officials are still having difficulty coming to terms with the past. Mr Shin Sakurai

resigned as environment minister a week ago after suggesting that Asian countries had benefited from Japanese occupation.

Following talks last night with coalition leaders, it was still uncertain whether Mr Murayama would be in a position to tell Philippine President Fidel Ramos of a plan to set up a ¥100bn (US\$6m) private foundation.

This would provide, among others, for the so-called comfort women who were forced to provide sex for imperial army troops during the second world war.

Tensions persist within the parliamentary LDP, defections from which brought about its downfall last summer.

An LDP committee is debating whether to abolish the intra-party factions, which have traditionally served as powerful lines of patronage. Many party elders will dislike the proposal.

Mr Murayama has, meanwhile, still to complete the post-Cold War conversion of his own party. An SDP congress next month is likely to highlight grassroots concerns.

But the leap over the ideological threshold to share house with the LDP is supported, according to one poll, by a comfortable majority of regional SDP leaders.

Russians become tangled in Tajik power struggle

By Steve LeVine in Moscow

Tajikistan's remote Pamir mountains were once a favourite hunting spot for Moscow's leaders, who prized the Soviet southeast's bighorn Marco Polo sheep. These days, however, Russians in the Central Asia republic are as likely as not themselves to feel like the hunted.

Late last week, seven Russian soldiers were killed in a fierce cross-border raid in Tajikistan by a more and more daring, Afghanistan-based opposition. The deaths followed an intense period of assassinations and ambushes against a 25,000-strong Russian military force deployed on the southern Tajikistan border with Afghanistan.

The force, sent ostensibly to pre-

vent the republic's instability from spreading to Russia, has become increasingly bogged down and besieged.

"This (the attack) is a reflection of the opposition's existing strength, and partly its desperation," said a diplomat in Dushanbe, interviewed by telephone yesterday. "We haven't seen the full fury yet."

In committing itself to propping up the Dushanbe government, composed of old guard hard-liners from the previous Communist administration, Moscow has said it is fighting a radical Islamic opposition, and the regional reverberations that could erupt if it came to power.

Western analysts believe that the opposition's Islamic component has been exaggerated. Moscow may be

sensitive about a new war being fought on former Soviet territory against forces in Afghanistan.

But, analysts say, the deployment is also part of a wider policy in which Russia, while loosening up elsewhere, has entrenched itself in all the Central Asian and Caucasus republics that it has dominated for more than a century.

Rather than a battle against militant Islam, the Russian troops have become tangled in a two-year-old power struggle between regional clans, intractable disputes that go back to the beginning of the Soviet era. The battle pits the former Soviet elite against an opposition of traditional have-nots from the rural Garm and Pamir areas in central and eastern Tajikistan.

The fighting began as a purely political struggle in the last months of the Soviet period, when the government loosened its grip on the opposing opinions.

In the ensuing months, the neo-Communist government found itself increasingly beleaguered by a growing opposition coalition comprising intellectuals, self-described democrats, Islamic leaders and students.

In autumn 1992, the opposition took power. But within weeks it was overthrown by tanks, jets and troops provided by Moscow and neighbouring Uzbekistan.

Some 60,000 Garm and Pamir people fled across the Amu Darya River to Afghanistan when the elite unleashed an ethnic-cleansing campaign in which thousands died. More than

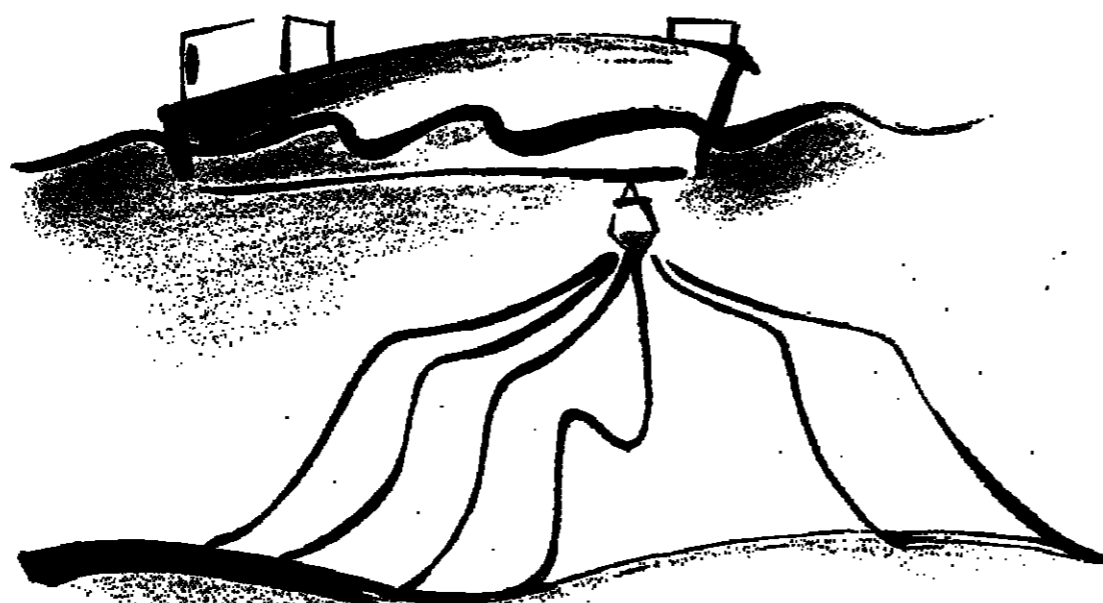
30,000 refugees remain across the Amu Darya, among whom are the fighters who today dog the Russians.

The fighting, and the attacks against the Russians, look unlikely to end soon. A principal reason is regional politics. Afghanistan, Iran and Uzbekistan are all in the fray with Russia.

Russia's support for Mr Imomali Rakhmanov, the Tajikistan president, remains the most important element of Tajik politics. In exchange for Russia's assistance, Mr Rakhmanov has allowed Moscow to control his economy and military. It is hard to name any important policy or programme that is Mr Rakhmanov's own.

But the region's other players have made Moscow's role ever more dangerous.

The challenges facing the oil industry have become so complex that only the simplest solutions will do!



The Gordian knot was so complicated that nobody could untie it - until Alexander the Great in 333 BC simply drew his sword and cut the knot in two. He taught us an important lesson: complex problems are often best solved in a simple way.

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floating below the sea surface. A tanker positions itself over the buoy, fishes it up and connects it to the bottom of the hull. The valves are then opened and crude oil is pumped directly from the platform into the cargo tanks.

This solution offers three important advantages. It's considerably cheaper than the traditional methods. Tankers can connect to and disconnect from the buoy in record time. And loading can proceed in waves up to about 30 metres high, while conventional buoy loading must stop at wave heights around 10 metres.

The man who launched the STL development is Statoil's Kåre Breivik. He's a long way from Alexander the Great - but shares the same commitment to the simple approach.

Norway's Heidrun field adopted STL as early as 1992. Both Shell and BP have opted for this technology in the UK North Sea. And it has attracted great interest throughout the international oil business.

STL isn't the answer to all the industry's challenges, either in the North Sea or internationally. But it's one of many answers.

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Option of breaking with the old ways

Damian Fraser assesses the Mexican election victor's scope to curb the ruling party's powerful role



MEXICAN ELECTIONS

After his convincing victory in the Mexican presidential election on Sunday, Mr. Ernesto Zedillo now faces the daunting task of preparing, in little more than three months, for a presidency that is to stretch from December 1 until near the end of the year 2000. Officials close to Mr. Zedillo indicate that he will concentrate on three broad areas until December - improving relations with the opposition, setting in motion the reform of the governing Institutional Revolutionary Party, and establishing policies and picking ministers for the next administration.

None of the three will be easy. The opposition is bitterly disappointed at the results, and angry with a political system that strongly favours the ruling party. Previous attempts to reform the PRI have all failed, with the party apparently more resistant to change than any other institution in Mexico. Also, many of the reforms Mr. Zedillo has pledged - overhauling the legal system, modernising the police, among others - touch some of the most powerful and vested interests in the country.

But he will have some advantages. The election results reveal a depth of support for the PRI, even in a difficult political year for the party, and indicate broad if not enthusiastic endorsement for the way the country has been managed by President Carlos Salinas since 1988. With reports of electoral irregularities limited, Mr. Zedillo can claim a democratic mandate for his policies.

The immediate issue is to heal the wounds that the long and often bitter campaign generated. Mr. Cuauhtémoc Cárdenas of the leftist opposition and Mr. Diego Fernández de Cevallos of the centre-right opposition have both sharply criticised the manner of Mr. Zedillo's victory. They claim that the seemingly unlimited spending of the ruling party, the biased media coverage of the campaign, and support from the government indicate an unwillingness by the PRI to embrace democracy.

Mr. Cárdenas is Mr. Zedillo's most immediate threat, although the former's poor showing in the poll, and perception that irregularities were isolated, weakens his ability to protest. Yesterday, Mr. Cárdenas called his supporters into Mexico City's main square, with his party claiming widespread irregularities in the elections. However, even Mr. Fernández - whose National Action party has generally supported the PRI - withheld a full endorsement of Mr. Zedillo's victory yesterday morning, attacking what Mr. Fernández called a "profoundly iniquitous and profoundly unjust" political system.

Mr. Zedillo, in his victory speech, made conciliatory gestures. He asked his opponents to "emphasise what we have in common, without sacrificing differences." He told foreign correspondents late on Sunday: "My responsibility is not only for those who voted for the PRI but those who voted for other parties. Today, Mexico has a great opportunity to have an important agreement among all the political parties." It is still unclear what such an agreement might entail. Many people are so sceptical about the PRI that they will not believe Mr. Zedillo until he makes specific concessions to the opposition. Mr. Enrique Krauze, a prominent historian, said Mr. Zedillo "should interpret the election as a mandate to change the system from within." But, given his way of campaigning and previous record in government, "we have not had the slightest sign that makes us think he is willing to do this."

Mr. Zedillo may choose some members of the opposition to join his cabinet as a way to win their support. A plural cabinet would certainly fit with his pledge to represent all of Mexico, not just the PRI. But it remains to be seen what, if any, positions Mr. Zedillo offers - more important, the opposition response is also awaited. Mr. Zedillo's pledge to reform the PRI will almost certainly form part of his attempts to forge relations with the opposition. In remarkably direct language, Mr. Zedillo promised in the campaign to separate the PRI from the government, not to interfere in the ruling party when in office, and to propose democratic methods for the party to pick its candidates.

The country's poll results are still a source of political controversy, writes Stephen Fidler

Salinas hails 'clean' election

The final judgment on the propriety of Mexico's presidential and congressional elections is yet to emerge, but Mexico's two main opposition parties will enter a period of reflection, if not crisis, as a result. The government of President Carlos Salinas declared itself satisfied with the cleanliness of the elections.



We want to vote: Mexicans protest at the door of the electoral authority after a lack of ballot papers denied them a vote

"Before proclaiming triumphs and losses, the legitimacy of the elections must be determined." Despite the advances made in the Mexican electoral process, the elections are still a source of political controversy and agreement does not yet exist on the rules of the electoral game.

Electoral difficulties fall into three main areas: ■ Before polling day, These issues were summed up in a report published this month by the Carter Centre of Emory University in Atlanta. "An uneven playing field which limits the ability of all political parties to compete equitably remains of significant concern, especially regarding the continuing bias of media coverage, the high cost of advertising, campaign spending limits beyond the reach of any party except the PRI, and great disparities in financial resources."

Independent citizen magistrates appointed to oversee the elections have also criticised slow processing of complaints - most against the ruling Institutional Revolutionary Party (PRI) - about breaches in the electoral law. ■ Voting itself. The possibility of padding the electoral roll with dead or non-existent people - common in the past - is now small, according to the Carter Centre, but it said an independent audit did not address the issue of disenfranchisement of those who believed they were on the roll.

On the day, the main problem surrounded special polling stations, where those away from home or not on the polling station lists could vote. The number of ballot papers in each of these stations was limited to 300, as part of an agreement among all the parties to try to prevent double voting. The question being asked by the opposition Party of Democratic Revolution and others is why were so many people on the electoral roll not on the lists of their local polling stations - forcing them to vote elsewhere.

Civic Alliance also reported that preliminary assessments suggested some 20 per cent of polling stations allowed voting by people not on the electoral list, and some 9 per cent allowed voting by people who had already voted. Some foreign observers travelling in the countryside around Mexico City reported that in some areas there was PRI intimidation of voters.

■ Fraudulent counting. This appears to have been much more difficult than in the past, in part because large discrepancies between exit polls and quick counts - from polling stations where voting had been observed - would have shown up attempts at centralised fraud.

The leader of the PRD, Mr. Cuauhtémoc Cárdenas, called on his supporters to meet in town and city squares around the country at midday yesterday, and these were expected to turn into protests against fraud. The government said it was expecting "peaceful demonstrations" with the armed forces under orders not to provoke confrontations.

However, it was thought that the ability of Mr. Cárdenas to generate widespread protest would be undermined by his relatively poor showing in the election results. Mr. Cárdenas claims he was deprived of the presidency by fraud in the 1988 elections and 1994 is likely to be his last chance at the presidency.

Particularly if the protests do not prove decisive, the left is likely to undergo a period of self-examination. Mr. Cárdenas had started the campaign by moving towards the centre, but towards the end of the campaign his speeches once again veered to the left.

Evolution of the ruling political machine

- 1928 President-elect Álvaro Obregón murdered, preparing way for creation of new party that would accommodate different political interests
- 1929 National Revolutionary Party (PNR), precursor of the Institutional Revolutionary Party (PRI), founded by Plutarco Calles, Mexico's political strongman, as the sole legal membership virtually compulsory for all members of government, Congress, army and civil servants
- 1934 Lázaro Cárdenas elected president, opportunities of companies, carries out sweeping agrarian reform, becomes a nationalist hero
- 1938 Cárdenas renames PNR the Party of Mexican Revolution, organises it into four corporatist sections - agrarian, professional, labour, military - turning it into an effective political machine
- 1946 PNR renamed Institutional Revolutionary Party (PRI) with military sector abolished; Miguel Alemán becomes president, spearheads economic modernisation, backing pro-business policies and encouraging foreign investment; he represents clear break from past revolutionary, hence decision to make the Revolution "institutional"
- 1958 Tlatelolco massacre: several hundred students and supporters protesting for political reform massacred by army in government crackdown, shattering two decades of relative social peace, ending Mexico's so-called post-war miracle
- 1976 Pino devalued for first time since 1954 after nationalist economic model followed by President Luis Echeverría leads to rising inflation, budget deficits, large-scale capital flight
- 1982 Mexico defaults on foreign debt obligations after fall in oil prices, setting off Latin American debt crisis and economic turmoil in Mexico
- 1985 Mexico joins GATT, as PRI leadership accepts free trade, privatisation of state-owned companies and other pro-market structural reforms
- 1988 Cuauhtémoc Cárdenas, son of Lázaro, breaks from ruling party to provide first serious challenge in presidential elections, winning 30 per cent of vote in elections marred by fraud; incoming President Carlos Salinas declares era of one-party rule is over
- 1994 PRI presidential candidate, Luis Donaldo Colosio, killed at campaign rally, the first such assassination since the murder of Avelino Obregón; PRI wins, with its new presidential candidate, Ernesto Zedillo, promising to democratise party structures

Stocks rise but caution sounded

By Ted Berdack
in Mexico City

Mexican stocks surged an initial 1.6 per cent to a new six-month high in early trading yesterday in the wake of the ruling party's election victory. By mid-morning the IPC index was up 32.76, or 1.21 per cent, to 2,740.94. The peso also appreciated significantly against the dollar.

RESULTS	
Population:	85m
Electronic:	45.7m
Party	
% of vote	
Institutional Revolutionary party (PRI)	47.14
National Action party (PAN)	31.35
Party of Democratic Revolution (PRD)	15.49
Others	6.02

However, analysts said that, because many investors had already bet heavily on this outcome in the weeks before the election, profit-taking was likely over the next few days.

"There is no question that people are buying... and that there is a general influx of capital into the market. But profit-taking may obscure the market's fundamental long-term strength," said Mr. Chris Luft, lead trader with Marvin & Palmer, US money manager.

Those investors who have been valuing the market higher on the basis of political events are expected to be the most cautious between now and Mr. Ernesto Zedillo's expected inauguration on December 1.

The strength of demonstrations called for by leftist leader Mr. Cuauhtémoc Cárdenas, who finished a distant third in the election but is crying foul, and the final judgment of the election process by independent observer groups, are just two of the many political uncertainties the market will have to account for.

"There is likely to be as much negative political news as positive in the next months. The dedicated guys are going to be very cautious... but that will be offset by those who are not playing politics" and just reacting to the good news, said Mr. Robert J. Pelosky, director of Latin American research and strategy at Morgan Stanley in New York.

Mr. Pelosky said the market's leading indicator needed to "rest and gather strength" around the current level of 2,700 points before surging to the expected 3,000 mark towards the end of the year.

The market rally is likely to be upheld by Mexican investors who "are a little more relieved, as they were not as optimistic before the election" as the foreigners," according to Mr. Felix Boni, director of research at the Mexican brokerage Interacciones. Mr. Boni cited the low turnout for Mr. Cárdenas as a factor not yet been completely discounted by the market.

Mr. Zedillo's presidential victory also increases the likelihood that Mexico will receive an investment-grade rating, although there is "no rush," according to a credit-risk analyst. "Let Zedillo get inaugurated and form a government. Then we ought to be able to go ahead," he said.

An investment-grade rating from the likes of Moody's and Standard & Poor's is considered key for the infrastructure drive Mr. Zedillo has promised, as it would lower the price of a slew of government bonds expected to be issued in the early days of a new government by the country's development banks and agencies.

Tempers fray as members yearn for a break

Senate puts off vote on Clinton crime bill

By George Graham
in Washington

Leaders in the US Senate had to put off any vote on the administration's crime bill yesterday, but at least began debate on the measure. On Sunday night, the House of Representatives had voted to pass a slimmed-down bill with somewhat less money for crime prevention programmes than the White House wanted. Some opponents of the legislation, led by Republican Senator Orrin Hatch of Utah, were still threatening to use the kind of obstructive procedural tactics that held the bill up in the House for two weeks.

Mr. Leon Panetta, the White House chief of staff, said it would be "a disgrace to the country" if the bill's opponents were to block the measure. Senator George Mitchell, the Democratic majority leader, said such an attempt would be "unwise, both substantively and politically."

Senator Joseph Biden, who as chairman of the judiciary committee will manage the bill in the Senate, said that he believed the bill would be "awfully hard to stop," but he acknowledged that he faced a hard task in keeping together a coalition of colleagues so as to maintain the 60 votes needed to overcome procedural obstacles.

"My dilemma is to get virtually all the Democrats and between five and eight Republicans," he said. In the final House vote on Sunday night, the bill won the backing of 188 Democrats, 46 Republicans and the lone Congressional Independent, while 131 Republicans and 64 Democrats - mostly opponents of either gun control or the death penalty - voted against it.

Ever since President Bill Clinton's stunning defeat in a procedural vote in the House two weeks ago, the crime bill has overshadowed everything else for the administration. White House officials said the first question on Vice-President Al Gore's lips, when he emerged from surgery on Sunday after injuring his Achilles tendon in a basketball game, was: "What's going on with the crime bill?"

Yesterday, crime pushed aside the Senate's snail-paced debate over healthcare reform, offering some members a welcome break from an argument that has already eaten one week out of the Congressional summer holiday.

House members, at least, were able to go home after a climactic vote on Sunday, but Senator Mitchell says he plans to keep the Senate in Washington until it has completed action on a healthcare reform bill, despite the advice of Senator Daniel Moynihan, finance committee chairman, that he allow senators to take a break. "I will do whatever the leader wants done, but I think he might decide that we've talked enough, and we've listened to each other enough," he said on Sunday.

Congressman Robert Matsui appeared unimpressed by the Senate's feeling that it needed a rest. "It's not as much a problem for them. As you know, they have older kids because they're older people," he said. But, with tempers fraying on all sides, Mr. Mitchell and Mr. Clinton may conclude that, if they can bring the crime bill to passage, they would be better to leave the healthcare reform bill to one last, convulsive effort in September.

That may leave very little time to complete the measure before members start fretting to go home to campaign for re-election in November.



Former United Nations secretary general Mr. Javier Pérez de Cuéllar, pictured above amid supporters at the Villa El Salvador shanty-town near Lima, says he will make an announcement on September 23, on whether to stand in the Peruvian presidential election next April. Reuters reports from Lima. In a statement late on Sunday, Mr. Pérez de Cuéllar said he was seriously considering a request from several sectors of Peruvian society to run for president. "I will soon resume my pilgrimage around the country and, on September 23, I will formally announce my final decision," he said. Earlier on Sunday, he had told the meeting at Villa El Salvador that he was "an independent candidate." See Observer, Page 13.

Blockade of Cuba unlikely

By James Harding in Miami

The Clinton administration yesterday sought to damp speculation that the US was about to impose a naval blockade on Cuba. Mr. William Perry, the defence secretary, visiting southern Florida to assess for himself the scale of the refugee problem, said: "We do not have orders at this time to effect a blockade."

A Pentagon official travelling with Mr. Perry went further, to say that a blockade was "not something currently at the forefront of our planning."

Speculation that the US government would impose a blockade as a measure to speed the downfall of Cuba's President Fidel Castro grew over the weekend after Mr. Leon Panetta, White House chief of staff, said a blockade was one of the options the US administration was considering.

Strong growth in GDP recorded

By Philip Cogan,
Economics Correspondent

The UK economy grew more quickly than expected in the first half of 1994, leading economists to predict that full-year growth will be well ahead of the Treasury's 2.75 per cent forecast.

Figures released by the Central Statistical Office yesterday show that gross domestic product in the second quarter of 1994 was 1 per cent higher than in the previous three months, and 3.7 per cent higher than in the same period of 1993. Those figures compared with earlier estimates of 0.9 and 3.3 per cent respectively.

The buoyant news on UK economic growth was reinforced by a Gallup poll for the European Commission, which

showed an increase in consumer confidence over the past month. The balance of those expecting an improvement in both their financial position, and in the UK economy, improved between July and August.

However, some economists warned that the pace of economic growth, which is running faster than the UK's long term trend, might prompt the Bank of England to push for a pre-emptive rise in interest rates, to head off inflationary pressures.

Second quarter growth was boosted by a strong performance from net exports, with an improving trade performance contributing more than half the GDP increase.

Consumer spending was also ahead, although the pace of growth, at 0.4 per

cent quarter-on-quarter, has slowed sharply from the second half of 1993, when quarterly growth was running at 1 per cent and above. "This is the clearest sign we have had so far that the announcement of tax increases and their subsequent imposition has hit demand," said Mr Simon Briscoe, UK economist at S.G. Warburg Securities.

CSO figures also showed the slowest quarterly growth in income from employment since 1987, mainly because first quarter income was boosted by the high level of bonus payments.

A 0.3 per cent decline in investment in the second quarter was seen as disappointing, although economists pointed out that year-on-year growth in fixed domestic capital formation was 6.4 per cent.

The strength of GDP in the second quarter, combined with an upward revision to first quarter growth from 0.7 to 0.9 per cent, show that the UK economy is gaining momentum.

Mr Kevin Gardiner, UK economist at Morgan Stanley, calculates that, even if the economy were to be flat in the second half of this year, full year growth would still reach 2.9 per cent, ahead of the Treasury's forecast.

1993 and 1994 growth was boosted by the rapid expansion of the oil and gas sector. But even if this volatile element is excluded, GDP grew by 0.8 per cent between the first and second quarters and was 3 per cent ahead year-on-year. Apart from oil and gas, the strongest industrial sector in the second quarter was electricity and water supply.

Britain in brief



All-time high for overdue debt figures

The value of long-overdue debts has risen to an all-time high, according to figures released yesterday by Trade Indemnity, the specialist trade credit insurer.

The average value of these debts - those which are unpaid 30 days after they are due - rose 5 per cent in the last quarter to £185,000, says the insurer's quarterly financial trends survey.

On average, payments are made 22 days after a debt is due. Just 2 per cent of companies are paid on time.

The number of exporters being paid on time increased slightly from 11 per cent to 13 per cent between the first and second quarters of the year.

A quarter of companies said they had suffered no bad debts in the past 12 months, while 3 per cent said they had suffered bad debts totalling more than 2 per cent of their turnover.

Rosyth move 'high risk'

The rundown of the Rosyth naval base in Fife was a "high risk" option for the Royal Navy, Mr Gordon Brown, the shadow Chancellor, claimed yesterday.

Mr Brown, whose Dumfries East constituency includes Rosyth, produced a two-page naval signal marked restricted, sent from the commander of the Faslane naval base on the Clyde to Navy officials at Rosyth in July.

The Rosyth base is to be run down and its minesweeper squadrons transferred to Portsmouth and Faslane as part of defence spending cuts. Speaking at Inverkeithing near Rosyth, Mr Brown claimed Faslane was unable to take the transferred workload from Rosyth without massive financial investment.

In the signal, the Faslane

commander warns that some facilities will not be available for the transferred minesweeper squadron until late 1996. He says a satisfactory outcome to a "challenging programme" will depend on getting enough men and money to manage the transfer.

In particular, the commander warns that there is a "high risk" of being unable to convert two berths at Faslane by 1996 for the minesweepers to occupy long-term.

He also says there is a "high risk" that specialist storage facilities for equipment for the minesweepers will not be completed in 1996.

Minister to meet Remploy

Mr Phillip Oppenheim, British employment minister, will today meet Remploy, the manufacturer at the centre of a row over the government's decision to remove its status as a priority supplier in line with a European directive on public procurement.

The meeting is the first direct contact between the company, which employs 8,600 disabled workers in 95 factories around Britain, and the government since Mr Michael Portillo, employment secretary, made clear about a week ago that he would comply with the directive.

Mr Portillo has insisted that the new EU directive makes illegal the Priority Suppliers Scheme, which gave companies employing large numbers of disabled people some advantages in bidding for government work.

EC officials have criticised his decision to axe the disabled scheme without referring to them because it was not intended to hurt disabled workers.

The talks come as Remploy workers were being balloted on strike action after rejecting a 2.5 per cent pay offer.

Revenue to canvass users

Britain's Inland Revenue is planning to canvass the views of professional advisers on how effectively it administers the tax system.

The survey will be the fourth in a series as part of its efforts to meet its obligations under the Citizen's Charter to

improve its service to taxpayers. The project which may be undertaken towards the end of this year, will cover accountants, lawyers and other "agents" who are involved in preparing corporate and personal tax returns and are in regular contact with the Revenue.

More trains break strike

British Rail said that it ran 45 per cent of its normal services yesterday afternoon, the largest number of trains to run since the start of the railway signmen's strike 11 weeks ago.

Railtrack said it had managed to open 40 per cent of the 10,000 mile UK rail network to train services, slightly more than during last week's two-day strike, and biggest percentage since the strike began.

The company, which manages British Rail's track, signalling and stations, said 530 signmen had worked last week, including 309 members of the RMT transport union. At the start of the strike only 337 signmen worked, including 131 RMT members.

Railtrack said it did not know how many signmen would be working during the present 24-hour stoppage, which ends at midday today but expected a small increase.

70m visitors to historic sites

About 70m visits were made to historic properties in England last year, an increase of 3 per cent over 1992, the English Tourist Board said yesterday.

Westminster Abbey was England's most visited historic building last year, with 2.5m visitors.

Of the admission-charging attractions top place went to the Tower of London with 2.3m visitors, a rise of 4 per cent on 1992. St Paul's Cathedral, London, was second with a 36 per cent rise to 1.5m last year.

Buckingham Palace, open to the public for the first time, attracted 577,000 people in 56 days, making it the 13th most popular entrance-charging attraction.

Visitors to historic properties spent £192m, a rise of 8 per cent on 1992.

Labour attacks 'scandal' over Astra

By Kevin Brown,
Political Correspondent

Britain's opposition Labour party yesterday launched a devastating attack on government moves to disqualify six directors of Astra Holdings, the collapsed munitions company involved in the Iraqi "supergun" affair.

Mr Michael Meacher, Labour spokesman on open government, said the trade and industry department's treatment of the directors was "a significant piece of the cover-up over arms to Iraq." He said the move was "a grade one scandal."

The DTI launched disqualification proceedings this month, nearly a year after seven Astra directors were criticised in an inspectors' report on the company's 1989 £22m acquisition of PRB, a Belgian defence company. Astra, which is in receivership, became involved in the "supergun" affair after discovering that PRB had a contract to supply propellant.

UK customs officers blocked the project after they seized giant steel tubes being shipped in 1990.

The DTI report criticised the directors for continuing with the PRB acquisition in spite of warnings from advisers about PRB's financial condition. They were also criticised for misleading shareholders about Astra's financial situation.

Mr Meacher yesterday wrote to Mr Michael Heseltine, president of the board of trade, claiming that the proposed disqualifications were "a shabby and sordid political vendetta."

He said the move was "designed to intimidate and discredit the former Astra directors because of what they have revealed about the secret and illicit arms trade with Iraq and the government's complicity in it." The government wanted Astra closed because directors had discovered that subsidiaries it had purchased were being used, with the connivance of the government, for the illegal export of arms to Iraq during the Iran-Iraq war, he said.

Mr Meacher said the government's political motives were "clearly revealed" by the exclusion from the disqualification list of Mr Stephen Kock, an Astra director with links to the security services.

US visitors to urge IRA ceasefire

By Tim Coone in Dublin



Sinn Féin president Gerry Adams said the meeting with Mr Morrison's delegation was "an important one". Picture: Lydia van der Meer

An influential Irish-American delegation, which will visit Northern Ireland this week is expected to encourage the early announcement of an IRA ceasefire when it meets Mr Gerry Adams, the president of Sinn Féin - the political wing of the IRA.

The delegation, which is due to arrive in Belfast tomorrow, is headed by Mr Bruce Morrison, a former Congressman who is considered a close friend of Mr Bill Clinton, the US president.

He will be accompanied by other prominent Irish Americans including Mr Niall O'Dowd publisher of the New York-based Irish Voice, the millionaire businessman William Flynn and Mr Charles "Boss" West, head of the multinational General Atlantic.

Mr Adams yesterday described persistent speculation about an IRA ceasefire as "unhelpful" but said he considered the meeting with Mr Morrison to be "an important one".

Mr Morrison played an important role in obtaining a temporary US entry visa for Mr Adams earlier this year, despite a long-standing ban on his entering the US. During a visit to the province by Mr Morrison in September last year, the IRA called an unofficial seven-day ceasefire.

Speaking on Irish radio yesterday, Mr Morrison said "What needs to occur is that the violent activity needs to

stop. That also means, of course, that if the IRA takes a decision to stop, that steps must be taken to get the loyalist para-militaries to stop as well.

"In the context of there not being para-military activity, it then falls to the political process to take steps to make it a permanent cessation".

The British and Irish governments have again stressed in recent days that only a permanent ceasefire by the IRA will allow Sinn Féin to enter into direct talks with the two governments and round-table talks with the other political parties in Northern Ireland.

The US Embassy in Dublin emphasised that the visit of the US delegation was a private one, and that no official business will be conducted by Mr Morrison. Nonetheless, Mr Morrison's team has maintained close contact with political figures in Northern Ireland over the past year, and is considered to be an unofficial line of communication between the Republican leadership and the White House.

Mr Morrison is best known in Ireland for his role in getting US Congressional approval for a special lottery system to allocate a large quota of immigrant visas to Irish people wishing to settle in the US. The so-called "Morrison visa" has facilitated the emigration to the US of over 70,000 Irish people from both parts of Ireland over the past five years.

More ships held after failing safety inspections

By Charles Batchelor,
Transport Correspondent

Twenty-one foreign ships were detained in UK ports in July after failing safety inspections, Britain's Marine Safety Agency said yesterday.

This was the second monthly report on defective vessels arriving at British ports. The first survey, carried out in June, led to the detention of 17 vessels, three of which were still being held in July.

The British government began inspecting foreign ships in UK ports in June after an inquiry headed by Lord Donaldson into marine pollution incidents produced a report which was very critical of marine safety standards.

Mr Robin Bradley, chief executive of the agency, which was set up April to take responsibility for marine safety, said: "The response from the industry to our June detention list has been encouraging. The publication of a monthly list will strengthen our campaign against unsafe ships."

Ten of the vessels detained in July had significant defects in their life-saving and fire-fighting equipment while six had defects in their radio installations. Two were held because of shortcomings in crews while one had serious structural problems.

Five of the ships were registered under the Maltese flag, three in Liberia and two in Cyprus. Four had been inspected and approved by the American Bureau of Shipping,

three by Bureau Veritas, a French classification society; and two each by Det Norske Veritas, Germanischer Lloyd and Nippon Kaiji Kyokai. Of the remaining vessels, two had not been approved at all.

One ship, the United Trust, a Greek-owned general cargo vessel flying the Maltese flag, had severely corroded bulkheads, decks and support struts. There were no proper papers and the radio did not work. The ship made temporary repairs and was then allowed to sail to Germany for permanent repairs.

The failure of some countries which register vessels under their flags to impose adequate controls has led to a shift towards inspections in the ports where vessels call.

Milk battle set to go to court

Britain's dairy trade is to take the government to court for its handling of the deregulation of the milk market, warning that retail prices could be forced up and thousands of jobs lost.

The Dairy Trade Federation, which represents milk processors, said it was seeking a High Court judicial review because the government had allowed the creation of "a monopoly supplier of milk without proper regulation or control."

The government gave the go-ahead in June to the Milk Marketing Board to set up a voluntary dairy farmers' co-operative, Milk Marque, to succeed it when the market is liberalised on November 1.

Milk Marque has already signed up farmers representing 66 per cent of milk supplies in England and Wales and the dairy trade says this control over the market is allowing it to raise prices by up to 25 per cent under its auction-based selling system in preparation for the new regime.

The federation said the price rises would cost dairy companies collectively some £250m a year, more than the industry's entire current annual profits.

Yesterday, the big players in Britain's dairy industry launched their co-ordinated attack on the arrangements for milk purchasing that take milk from the £3.3bn milk market is liberalised.

Northern Foods, Unigate and

Alison Maitland on how the dairy trade is angry over deregulation

MD Foods, three of the biggest dairy companies, released gloomy statements warning that retail prices could rise sharply and the UK dairy processing industry could lose jobs to continental Europe.

They are furious that Milk Marque has been able to raise the prices at which it sells to them.

At each of the three rounds of bidding, Milk Marque has raised prices. But the dairy companies wanted 30 per cent more milk than Milk Marque has to offer, so it is also scaling back allocations.

Mr Andrew Dare, Milk Marque chief executive, said it was asking for an average of 25.5p per litre, compared with a current price of 24p, an increase of just over 6 per cent.

But the dairy companies say this does not take account of recent changes in the value of the green pound - the artificial exchange rate at which Ecu-based support prices are converted into sterling - which means a further rise in prices of 34 per cent.

Furthermore, the average price covers seven categories of milk, carrying increases ranging between 2.7 per cent and 24 per cent, they say.

Unigate, which consumes about 13 per cent of milk supplies, said its operating profits could be down by as much as £10m in the year to next March 31 because of cost increases.

Mr Ross Buckland, chairman, said British dairy companies were trapped by Common Agricultural Policy quotas, which mean Britain can produce only 85 per cent of its milk requirements.

Unigate faces price increases of about 12 per cent in the milk it uses for yoghurt, and up to 24 per cent in milk for cheese production, he said. Yet input costs in other European Union member states such as France, where supply exceeds demand, were falling.

Imports of dairy produce would be sucked into Britain

from France, "where you don't have a government-created, 50 per cent monopoly which is able to set its own selling conditions and its own prices in a quota-capped regime," he said.

He predicted thousands of job losses and said Unigate's 8,000-strong workforce faced "significant" cuts.

Some companies are already in trouble. Last week the Galloway Cheese Company, majority-owned by the Scottish Milk Marketing Board through its commercial arm, went into receivership, putting 130 jobs at risk. The board said banks had been reluctant to continue support for the company without new guarantees or funds because of "the uncertainties of the marketplace following deregulation."

Mr Chris Haskins, chairman of Northern Foods, the biggest dairy company, said farmers could suffer, too. "They may have a honeymoon, but prices would collapse as factories close, the value added business goes elsewhere and imports come in."

But the National Farmers' Union said the old system gave dairy companies an advantage over producers.

"They've been cushioned from competition and they've subsidised a bit," said Ms Julie Smith, the union's milk adviser. "I don't think it's going to be as drastic as they say, but this is a necessary job."

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MANAGEMENT: THE GROWING BUSINESS

Better to launch and lose

Encouragement for entrepreneurs to "have a go and hang the risk of failure" has not been a part of the British way of life for many years. In spite of the Thatcher era, to have launched and lost is not widely seen as better than never to have launched at all.

The cause of those wanting to lift this dead hand has been further undermined this month with publication of a report* from CCN Business Information, the credit information provider.

According to CCN, nearly a quarter of all company directors in the UK have been involved with companies that have failed during the past six years. More than 10 per cent of these directors have had more than one failure and 1,000 display the qualities of rubber - bouncing back from more than 10 failed companies.

CCN uses this data, gleaned from analysis of 931,000 directors, to call for a clampdown on "serial failures". It says the delay in pursuing disqualification of directors and inefficiency on the part of the courts means serial failures are "free to defraud and lose other people's money".

In spite of the increase in company failures in the past five years, CCN says, the number of disqualifications has stayed at 900 to 400 a year. CCN recognises that company failure does not necessarily imply dishonesty or incompetence and that companies are put into liquidation for perfectly legitimate reasons.

It calls for more investigation of directors' track records before they receive credit, a move that would lead to more prudent credit management. But CCN's emphasis on the small percentage of directors involved with multiple failures denies an important fact. Businesses fail all the time. For many directors, this experience is more valuable than any business school training and makes them better credit risks.

RG

Report available from CCN Business Information. Tel: 0602 863854. Price £50.

North-east England was once described, by a local university academic, as "a policy laboratory where every conceivable kind of economic development initiative has been tested, often to destruction".

From the wooing of Nissan and its £900m European car plant to advice on setting up creches on council estates, the economic regeneration industry is arguably the region's greatest growth sector.

This month's loss of yet more jobs from shipbuilder Swan Hunter, where nearly 2,000 have gone since receivership 15 months ago, underlines how much Tyneside, in common with Britain's other traditional industrial heartlands, needs to succeed in creating new jobs.

In such areas, substantial numbers of male manual jobs have been disappearing for two decades or more, eroding not only employment but the confident expectation of a lifetime's work with a large employer.

Across all political parties and interest groups in Tyneside, there is widespread agreement that indigenous growth through expansion of small and medium businesses is at least as important to economic restructuring as inward investment. But there is less clarity about how that growth can best be encouraged by the multiplicity of bodies set up to foster it.

Graham Woosley, general manager of Tyneside's recently launched Business Link, admits the range of support services is confusing. A former company secretary at Swan Hunter and knowledgeable about the local business scene, Woosley was surprised to discover how many initiatives there were in the local job creation sector.

In some parts of the country, he says, the government's one-stop shop Business Link initiative is operating in a "greenfield" setting. Places such as Tyneside, Manchester and Merseyside already have many organisations geared up to helping the entrepreneur.

Business Link Tyneside has 13 core partners and its "wider partnership" includes a further 26 bodies and programmes, all active in encouraging the area's economic growth.

The Business Link, says Woosley, is not a signposting mechanism, but a "delivery organisation", working alongside its clients to help them through the bewildering range of advice and information available from local support bodies.

Some of these organisations, such as enterprise and economic development agencies Project North East and Entrust, were founded in response to the recession of the late 1970s and have continued to evolve. Other initiatives set up around that time, by the now-defunct Tyne



Graham Woosley of Tyneside's Business Link. It is a "delivery organisation", he says

Support industry

Chris Tighe looks at a confusing range of support services for businesses in north-east England

and Wear county council, have been joined by a raft of other projects.

They range from university schemes, geared to spinning off businesses from top-level research and development, to central government-funded and private-sector led projects aimed at helping residents of some of the most deprived inner city areas create their own jobs.

The five district councils of Tyne and Wear have also been highly active for many years in economic regeneration, offering business start-up training and counselling, grants and subsidised workspace.

Local industrialists have recently weighed in too with their own Manufacturing Challenge, aimed at doubling the region's man-

ufacturing base and trebling exports within a decade.

Figures from the Tyne and Wear Research and Intelligence Unit, based on the 1981 and 1991 census returns, indicate that this effort has borne fruit: over that period, self-employment rose by 48 per cent - representing about 10,000 people.

David Irwin, chief executive of Project North East, detects a psychological sea change since the late 1970s, away from the belief that anybody starting up in business is "one of them".

Business Link's four business advice centres in Tyneside, founded as a partnership between enterprise agencies, local authorities and the Tec, indicate just how far that

change has gone; in the three years to April 1994, they dealt with more than 100,000 inquiries. In the four months since early April, 8,369 people passed through their doors.

"One of the problems we find in dealing with new government ministers, and even civil servants, is they are always looking for the new, sexy idea they can put a label on," says Alan Clarke, Newcastle's chief economic development officer. "The tendency is, let's have a competition to come up with a new idea, usually for less money. It's infuriating."

Irwin notes an underlying contradiction. "We tell the clients they must be market driven: the government tries to make us policy driven."

For some agencies the thirst for new ideas is life-threatening. "Fighting for funds takes all of my time," says Jim Hedley, managing director of the Gateshead-based Innovation Centre, whose staff have assisted more than half the region's estimated 5,500 manufacturing companies since the centre was founded 13 years ago.

The government says its objective in creating the Single Regeneration Budget (SRB), for which 1995-96 bids are now being prepared, is to tackle the plethora of separate programmes and target local needs more effectively.

But the invitation to bid for new projects, and the winding down of the government-funded Urban Programme, has serious implications for bodies such as the Innovation Centre. Urban Programme, drawn from 20 north-east local authorities, was a key source of funding. European funding, another vital input, is also still unclear for next year.

"I really don't know if we will be in existence next April," says Hedley. "It seems crazy when the government places such emphasis on developing new processes and initiatives."

Yet the move to SRB is also seen by some Tyneside regeneration specialists as an opportunity - provided it is adequately funded - to inject greater coherence into the area's economic development activities.

One review it has prompted is a rethink by Tyneside Tec of the Enterprise Allowance scheme, under which more than 2,500 small businesses have started in the area since 1990. A move is likely, says Tec operations manager Tom Arnot, away from automatic eligibility for those satisfying the rules towards a more discretionary system focused on business growth.

The jury is still out on the question of whether all these support services have in fact worked. It is difficult to tell how many businesses which are successfully growing would have failed without their help.

Health check for your company

Richard Gourlay on questions entrepreneurs should be asking

As you head back from the summer holiday, how healthy is your business?

As every entrepreneur who has survived the past few years will know, growing after a recession is fraught with danger as cash flow is stretched while resources have yet to be replenished by profits. But there are many more pitfalls. With the help of a quiz put together by accountants Blick Rothenberg, you can decide whether your business is in as good shape as your sunbat.

● Interest rates. While rates are at their lowest level for years, some pundits say they will edge up again in the near future. What effect might this have on your company's profitability? Work out your interest cover - the number of times interest payable is covered by pre-tax profits before interest. Is your number (a) more than 5 (b) between 2 and 5 (c) between 1 and 2 (d) less than 1?

● Dependence on one customer. Work out what percentage of your turnover your largest customer accounts for. Is it (a) less than 5 per cent of turnover (b) 5-10 per cent (c) 10-20 per cent (d) more than 20 per cent?

● Loss of several customers. How important are your five largest customer accounts? (a) less than 10 per cent of sales (b) 10-20 per cent (c) 20-50 per cent (d) more than 50 per cent?

● Suppliers. Is there one supplier who accounts for a large percentage of your materials? Does your largest supplier supply (a) less than 10 per cent of your key materials (b) 10-25 per cent (c) 25-50 per cent (d) more than 50 per cent?

● Key suppliers. Who are the managers responsible for the key functions in your business - sales, marketing, production, personnel, distribution or finance? How long could you continue if one of them left before the need to replace them became urgent? (a) more than 12 months (b) six to 12 months (c) one to six months (d) less than one month?

● Workforce. Have you increased or cut your workforce recently? If so, by what percentage in the past 12 months? (a) less than 10 per cent (b) 10-25 per cent (c) 25-50 per cent (d) more than 50 per cent?

● Turnover. How quickly has your turnover risen or fallen in the past 12 months? (a) less than 10 per cent (b) 10-25 per cent (c) 25-50 per cent (d) more than 50 per cent?

● Plant and equipment. Have you made any large purchases in the past 12 months? If so, what percentage of the cashflow of your business have you committed in this area? (a) less than 20 per cent (b) 20-50 per cent (c) 50-100 per cent (d) more than 100 per cent?

● Profit margins. Have your profit margins dropped in the past 12 months? If so, by how much? (a) less than 10 per cent (b) 10-25 per cent (c) 25-50 per cent (d) more than 50 per cent?

● Quick asset ratio. Calculate your quick asset ratio - the ratio of your current assets, excluding stock, to your current liabilities. Is it (a) more than 1.5 (b) between 1 and 1.5 (c) between 0.7 and 1 (d) less than 0.7?

Assessment. For each question you have answered, score as follows: (a) 4 (b) 3 (c) 2 and (d) 1. If you scored more than 30 points you are running a splendidly stable business, Blick Rothenberg says. You might as well have stayed on the beach because your business is so stable it would not miss you. If you scored between 22 and 30 points, you are more vulnerable but you also have more excitement in your life.

A score of between 15 and 21 points indicates you are likely to return to some nervous creditors. If you scored under 15 points, go back to the beach and recruit someone who scored above 22 points because you could be in serious trouble.

NEED TO GET BACK TO THE BUSINESS BEFORE THEY DISCOVER IT RUNS BETTER WITHOUT ME



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LEGAL
NOTICE

CIVIL ACTION SUMMONSES

UNITED STATES DISTRICT COURT
Southern District of New York
SECURITIES AND EXCHANGE COMMISSION
Plaintiff,
vs.
EDWARD R. DOWNE, JR.
STEVEN A. GREENBERG,
MARTIN REYSON,
DAVID SALAMONE,
FRED R. SULLIVAN,
THOMAS WARD,
MILTON WENGER, and
BROADSWORD, LTD.,
Defendants.

TO: David Salomone
c/o Thomas E. Engel
Engel & McCormick
720 Park Avenue
New York, NY 10019

SUMMONS IN A CIVIL ACTION
CASE NUMBER:
82 CIV. 4082

YOU ARE HEREBY SUMMONED and required to file with the Clerk of this Court and serve upon the Plaintiff's Attorney, U.S. Securities and Exchange Commission, New York Regional Office, 75 Park Place, New York, NY 10007, an answer to the complaint which is herewith served upon you, within 20 days after service of the summons upon you, exclusive of the day of service. If you fail to do so, judgment by default will be taken against you for the relief demanded in the complaint.

JAMES M. PARSONS, CLERK
Date: June 4, 1992

UNITED STATES DISTRICT COURT
Southern District of New York
SECURITIES AND EXCHANGE COMMISSION
Plaintiff,
vs.
EDWARD R. DOWNE, JR.
STEVEN A. GREENBERG,
MARTIN REYSON,
DAVID SALAMONE,
FRED R. SULLIVAN,
THOMAS WARD,
MILTON WENGER, and
BROADSWORD, LTD.,
Defendants.

TO: Broadsword, Ltd.
c/o Thomas E. Engel
Engel & McCormick
720 Park Avenue
New York, NY 10019

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JAMES M. PARSONS, CLERK
Date: June 4, 1992

NOTICE OF PENDING LAW SUIT

On June 4, 1992, the United States Securities and Exchange Commission ("SEC") filed a complaint in the United States District Court for the Southern District of New York against David Salomone ("Salomone"), Broadsword, Ltd. ("Broadsword"), and certain other persons (the "Action"). In the Action, the SEC alleges that Salomone and Broadsword violated Section 10(b) of the Securities Exchange Act of 1934, and Rule 10b-5 promulgated thereunder, by knowingly and unlawfully trading securities based upon material, nonpublic information. These same actions occurred during the period from June 1987 through May 1990 and involved securities issued by the following companies: Bally Manufacturing Corp., and Edgemoor Corp. In the Action, the SEC seeks a judgment and the court's order that Salomone and Broadsword be enjoined from further violations of the Act and the rules and regulations thereunder, and that Salomone and Broadsword be liable for the amount of \$3,000,000 - the net trading profits received by Salomone and Broadsword in connection with the trading of the securities of Bally Manufacturing Corp. and Edgemoor Corp. in violation of the Act and the rules and regulations thereunder.

The SEC has been unable to locate Salomone or Broadsword at their last known addresses for the purpose of personally serving Salomone and Broadsword with a copy of the summons and complaint in the Action. As a result, the United States District Court for the Southern District of New York has authorized service of the summons and complaint upon Salomone and Broadsword by publication of this notice and the summons.

It is requested that Salomone and Broadsword do not move an answer to the complaint in the Action within thirty (30) days after publication of this notice and the summons. The SEC will seek judgment by default for the full amount sought in the complaint - \$3,000,000 plus pre-judgment interest and penalties.

Anyone possessing any information concerning the current whereabouts of Salomone or Broadsword, Ltd. is requested to contact the U.S. Securities and Exchange Commission at: Steven World Trade Center, Suite 1200, New York, New York 10040; Attn: David Salomone, (212) 746-9194.

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CONTRACTS & TENDERS

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The contract will be for one year. There will be strict requirements about the procedures to be adopted. Each test will be managed by a board of departmental officials and will follow a set project management methodology. Bidders must have a sound understanding of European Union and Treasury purchasing requirements and market testing in central government.

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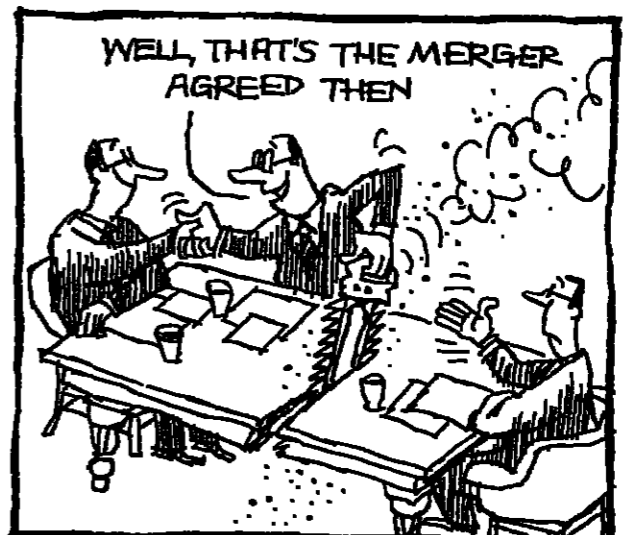
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EMPLOYMENT
DEPARTMENT

BUSINESS AND THE LAW

Looking after
number three

Celia Hampton explains how protection could be extended to outsiders in European mergers



A company does not have to be a party to a merger to be affected by a European Commission decision. The Commission may find that a merger would be acceptable from a competition point of view if none of the parties had links with other competitors in the market. The sacrifice of a business arrangement with a "third party" company may seem a small price to pay for approval of the merger. If accepted, the Commission makes this a condition of the merger's clearance.

A condition of this sort is not a finding for or against the third party. It passes no judgment on the business arrangement in question or on the third party's conduct or competitive position. It simply says that the companies seeking approval for their merger cannot have it unless one of them terminates its relationship with the third party.

This might seriously damage the third party's interests through no fault of its own. It would be wrong in principle for the law simply to ignore it. How the third party can be protected is not without difficulty. A merger clearance is a legally binding decision taken with a view to securing a competitive market in the public interest. It is nevertheless given for the benefit of the merging companies, not as general legislation affecting everyone equally. Private interests should be treated even-handedly. Favouring one set of interests over another lacks the necessary balance. It could be argued that a merger decision that lacks this balance should be struck down by the European Court.

A third party may undoubtedly seek annulment of a Commission decision if denied procedural rights, such as the right to make its views known during the merger inquiry. Yet private parties have no right to make the Commission take any notice of their views. Their legal rights can only be fully protected if the Commission has to consider them when deciding whether to approve a merger.

The Court of First Instance has a case pending in which a ruling to this effect may be made. Indeed, the issue has already been identified as a serious one. On June 15, Mr Cruz Vilaga, the court's president, suspended the relevant part of a merger decision until the court deals with the third party's claims in depth.

The case was brought by SCPA, the French potash company. In December 1993, the Commission cleared the acquisition of control of MdK, the former East German potash producer, by Kali-Salz (K+S), a subsidiary of chemicals group BASF.

As one of the conditions of clearance, the Commission told K+S that it must sell its own and MdK's shares in Kali-Export, a Vienna-based export agency handling sales by four European potash producers on the world market. SCPA was a partner in Kali-Export.

Mr Cruz Vilaga found that K+S's departure from Kali-Export would inevitably lead to its closure. As a result, SCPA would have to set up its own international marketing arm, at considerable cost. He ordered that the condition in the Commission's merger decision should not be enforced until the court had considered whether - and, if so, how - SCPA's rights in Kali-Export should be protected.

European law might be expected to follow the fairly universal rule that the law should not allow a person to be deprived of legal rights with-

out providing a remedy. The court could strike out the condition under articles 173 and 174 of the EC treaty, on the ground that it infringed the treaty or "any rule of law relating to its application". This would leave the troublesome question of whether the merger could be allowed to go ahead, since removal of the condition might undermine the reasoning that enabled the Commission to clear the merger.

More generally, a high level of protection for the third party would limit the Commission's room for manoeuvre under the Merger Regulation. If the third party could stop it imposing a particular condition, the merger might have to be prohibited.

The court might decide that the harm to the third party should be remedied after the event by private law means, such as damages. Compensation may be available anyway. For example, the company that is told to cancel its agreement with a third party may be liable for breach of contract.

But private litigation is expensive and risky. The company that causes the loss to the third party might escape liability for some reason. There might be no relevant right of action, or compensation might not be an adequate remedy.

The conditions imposed by the Commission tend to affect long-term proprietary interests rather than day-to-day business dealings. This reflects the Merger Regulation's concern with the structure of industry rather than its business conduct. It also makes it more probable that a third party's losses cannot be fully compensated by money alone.

Examples of conditions imposed by the Commission include sale of a shareholding by one of the merging companies, disposal of its entire business in a particular market, termination of overlapping memberships of company boards and non-renewal of a patent licensing agreement. Potential harm to third parties may be mitigated in the decision. For example, it may allow time for the sale of a large shareholding to safeguard the share price.

Private remedies might yield a satisfactory solution in the individual case. This would not be without its burdens for the Commission, however. It would be reasonable to expect it to make sure that the third party had an effective right of action and remedy. The Commission might itself deal with the issue of liability to third parties and make payment of compensation a condition of clearance. Within the tight Merger Regulation timetable, this might prove impractical. The question might be referred to arbitration.

Overall it seems unlikely that the court will ride roughshod over the rights of third parties. It has repeatedly recognised their right to challenge competition rulings and approvals of state aid. It seems that the court has not yet overturned a Commission decision specifically because of the harm done to a third party's substantive legal rights. It now has the opportunity to do so, or at least to say when it should be done.

"Case T-89/94, Société commerciale des potasses et de l'azote v European Commission; Commission Decision M.308, Kali-Salz/MdK/Treuhand, December 14 1994.

The author is editor of Business Law Europe, published by FT Newsletters

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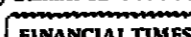
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CONTRACTS & TENDERS

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IN THE LAND AND SEA AREA OF PHILSVO, ATTIKI

(Ministerial Decision 1364/1994
Government Gazette 615B/1994)

Interested parties are hereby invited to take delivery of the particulars of a competition for the award to the highest bidder of the development of the sea and land areas of Philsvo, Attiki, as those are defined in the joint ministerial decision of the Ministers of Tourism and of Environment, Planning and Public Works (Joint Ministerial Decision 1363/1994, Government Gazette 627A/1994)

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Investors wishing to take part in the competition may obtain the necessary details as of the date of publication of the present notice in the Press, from the following address:

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TECHNOLOGY

Virtual repairs for hole in the road

Welsh Water is using interactive systems, writes David Traherne

A public utility in the UK will use virtual reality for the first time this year to show customers why a busy road must be closed and dug up.

Welsh Water, the privatised water company, will use a personal computer-based interactive virtual reality system at public meetings in Wrexham, north Wales, to show the public how a sewerage rehabilitation scheme will affect the local community.

The system will replace "costly" and "less flexible" rigid models of the proposed work. In addition to the PC-based interactive system, Welsh Water plans to make a "textured" version available on video, which uses photographs of the actual buildings in the affected street to make the scene more realistic, created on a RealityEngine from the US-based Silicon Graphics.

Much of the research for the project has been carried out by Intelligent Systems Solutions, based in Salford. The company has been working with N.W. Barber Group, a civil engineering consultancy based in Cheshire, which hopes the money-saving technique of creating virtual environments on PCs then sending them to higher level machines for texturing will attract a broad customer base.

Roger Moore, planning manager with Welsh Water, says that illustrating the disruption caused by sewerage work is particularly important because sewers are usually deeper and larger than other services. As a result, the disturbance during rehabilitation work is considerable.

The public will be able to "fly" along 500m of street affected by the work stopping outside their own virtual house or business. It will also be possible to "fly" down to the decaying sewerage system. Clicking on icons in the virtual pavement will activate a real-time video of the sewer. And the effects of a sewer overflow will also be shown. "Our customers will be able to evaluate the extent of the proposed excavation and use the system to make changes," says Moore.

To keep costs down, most of the work to create the virtual world is

being done on PCs. But the graphics are not as good as those on more expensive higher level machines so the information is sent from one to the other.

"The graphics and hierarchical structure of something with the complexity of the real world is ported from the PC to a RealityEngine where it is rendered using photographs of the real world as well as geometrical objects," explains Andy Connell, lead virtual reality researcher at Intelligent Systems Solutions.

These techniques mean "11,000 platforms do 90 per cent of the job, making the work affordable to companies like N.W. Barber," he adds. To create the virtual world for Welsh Water, Intelligent Systems is using Ordnance Survey information of the local area to form the backdrop above ground. Individual elements such as virtual houses, business premises, road machinery and street furniture (telephone boxes, road cones and street signs) are stored in a library on a PC before being called up to build the virtual street.

If the demonstration is successful, Moore believes it could help raise the profile of public consultation meetings which are "sometimes greeted with total apathy". The public, he says, is often unimpressed and confused by plan drawings provided by consultants. They can in some cases be hard to interpret, he adds.

"The use of virtual reality will bring clarity to our presentation and best explain to our customers how the work will impact on the local community."

Dave Walters, associate in research and technological development at N.W. Barber, says other water companies are now exploring ways for the virtual reality system.

South West Water plans to use a similar technique to illustrate why it needs to dig up parts of a road close to an ancient monument - Exeter Cathedral. Thames Water is considering ways the system might be used to show how a new sewerage pumping station in south-east London, will blend with its surroundings.

The magnetic stripe on payment cards is moving further up the list of endangered species. Though it will be some years before it finally becomes extinct, progress in developing "chip" or integrated circuit technology for cards means that its demise is approaching.

It may be a couple of years before a single-chip card can operate across borders or at a great number of outlets internationally. But after five to 10 years of parallel technology, cash dispensers and point-of-sale terminals, the natural habitat of payment cards' magnetic stripe, will have changed to suit only the more highly evolved "smart" card.

"The more complex the card, the more complex the point-of-sale needs to be," says Jean-Jacques Desbans, president and chief executive of Visa International, Europe, the Middle East and Africa. Visa is one of the three leading international payment card organisations which, by the end of this year, are due to have agreed common technical specifications for chip cards.

Later this month the three - comprising also Europay International and Mastercard International - should have agreed definitions for how the chip card and point-of-sale terminal will deliver services to the cardholder. That will mark the second stage of three sets of specifications for chip cards. The work is intended to be completed by the end of this year.

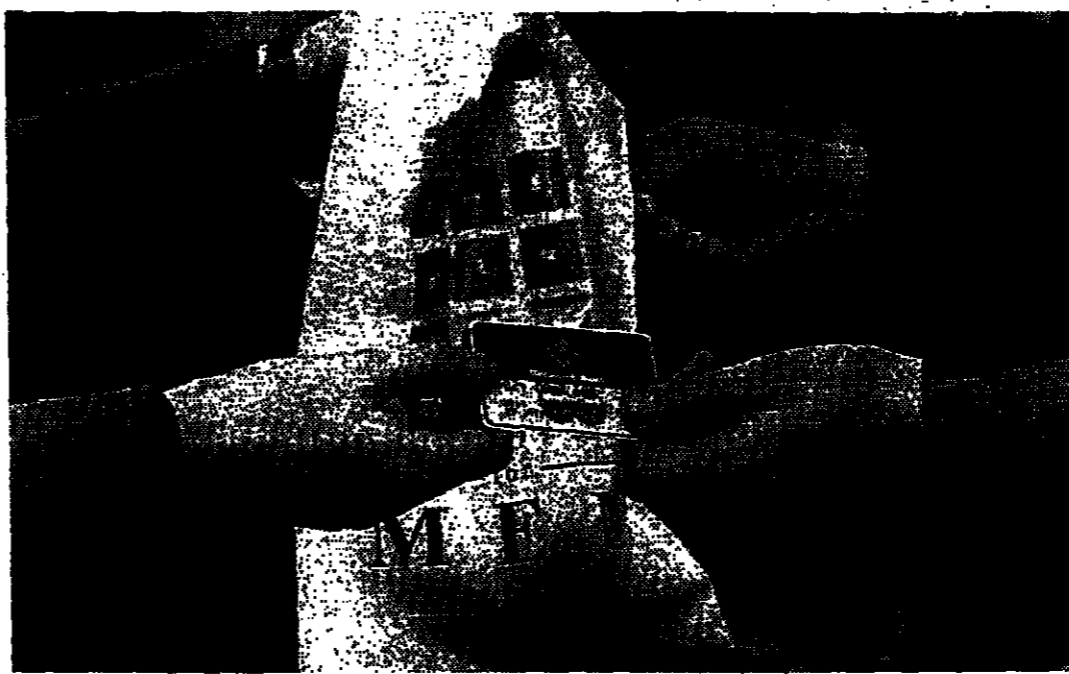
Two months ago, the first set, dealing with electrical and mechanical specifications for making chip cards and for point-of-sale terminals, was signed off, enabling manufacturers to begin work on micro-processor chips in payment cards. The third stage will cover how a transaction will be completed.

But the process of realising the card issuers' aim of more secure cards with a wealth of added-value services is a slow and expensive one: Visa says both it and Mastercard have been working on standards for chip cards for four years.

The length of the process is partly determined by the pace of technological developments. There is also diplomacy involved in the delicate task of achieving co-operation without destroying competition. Compatibility and acceptability are key selling points for the product.

"It's about finding a common technical platform which allows for different products," says Francis van den Bosch, Europay's director of commercial affairs. "First you have to agree on what you're going to agree about."

The scope for diversity is particularly important for justifying in business terms the investment a move to chip technology will require from thousands of organisations internationally.



Added value: chip technology will be safer, cheaper, faster and able to offer more services to the cardholder

The next smart move

The payment card's magnetic stripe will be ousted by the more highly evolved single chip, says Alison Smith

The pressure to develop chip technology began as an anti-fraud measure, on the basis that it would significantly cut losses from card fraud and make card security cheaper.

Van den Bosch says that the chip card is safer and is much more difficult to "crack". Its other advantage, of course, is that it enables much more information to be stored.

The chip should also be able to deliver cheaper authorisation methods. Authorisation on magnetic stripe cards involves telecommunication costs in a significant proportion of transactions.

The chip card cuts costs by allowing more transactions to be authorised off-line. "Europe is not going to go the same way as the US banks went in authorising on-line almost all transactions," says Desbans.

"The chip card can identify the cardholder, authenticate the card and authorise the transaction all in an off-line mode."

In spite of these two savings, there is now a broad agreement within the plastic card industry that the billions of US dollars in

investment worldwide can be justified only by using the capacity of the chip to deliver new services.

"I don't think using the chip for security reasons will bring enough savings to the table to justify the overall investment," says Desbans. "I do think the investment is needed, but to make it happen value-added functions have to be included."

These functions will vary widely. Perhaps one quarter of the chip's capacity could be devoted to common functions, with a further quarter for functions specified by the payment system and another for functions chosen by the issuing bank.

Storing information about customers, from their status with their bank manager to the type of hire car they prefer, is envisaged as a way of speeding up procedures at, for example, hotel check-ins and adding value to the cardholder.

Such plans are still at an early stage. A more immediate issue is to resolve sensitivity about how the new specifications impinge on chip

card systems already in use.

The French banks, for example, have introduced chip technology and they are unlikely to be content with specifications requiring them to start again when 20m or so cards are in circulation.

At the same time, there is no wish to simply follow the French lead to fit in with their system.

The approach of the payment organisations seems to be almost to regard the French system as a giant pilot study: they are ready to learn from the experience while recognising that improvements must be made.

In the UK plans are much less advanced, with Apacs, the payment clearing services association, recently approving the start of the first phase of developing a method of authenticating chip cards.

Such different rates of progress show the importance of international specifications in this area. Only when they have been agreed will the evolution of the chip card gather pace.

Drugs prices pressure

Companies that pioneer new pharmaceutical products are being caught up much more quickly by their competitors than in previous years, according to a report by Datamonitor.

To try and offset this declining exclusivity, they are developing drugs more quickly. Zeneca of the UK, for example, is consistently achieving its target of administering drugs to human volunteers within 14 months of synthesis, compared with 36 months previously.

In the days when there was more time before the arrival of "me-too" products, SmithKline Beecham's anti-ulcer drug Tagamet was on the market for eight years before the launch of Glaxo's Zantac. But Glaxo's anti-nausea compound Zofran was on the market for only a year before SmithKline Beecham launched its rival Kytril.

The increased competition has put more rapid pressure on prices, says Datamonitor, which expects only sluggish volume growth in the market for the rest of this decade.

This pressure will be accentuated by increased exposure to non-patented generic competition. By December 1997, there will be \$10bn (£6.4bn) worth of sales within the portfolios of 14 US pharmaceutical companies subject to generic competition.

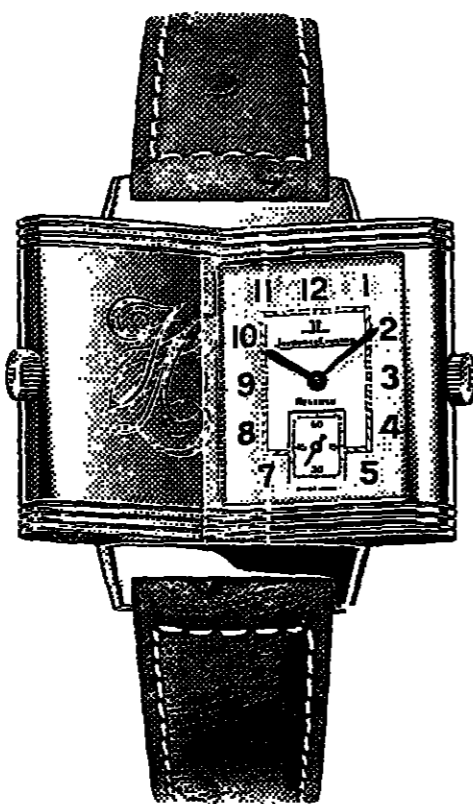
More than half the top 50 drugs in the US will lose patent protection over the next four years.

Prices can fall as much as 70 per cent within 18 months of patent expiry. Those categories most exposed to generic competition are anti-hypertensives, non-steroidal anti-inflammatories for arthritis and pain; anxiolytics; and B-2 stimulants for asthma.

Companies will attempt to offset patent expiry, when they can, by launching over-the-counter, non-prescription versions.

"The Pharmaceutical Industry in the 21st Century; New Structures, New Dynamics, 071 625 8548.

Paul Abrahams

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PEOPLE

Swan's Marsh joins Babcock

Alex Marsh, 48, a former chief executive of Swan Hunter, the troubled Tyne-side shipbuilder, is joining Babcock International to help prepare its bid for the Rosyth Royal Dockyard which is to be sold off by the government.

Marsh, who led the \$5m management buy-out from British Shipbuilders in 1986, lost his job at Swan Hunter some months ago but had been acting as a consultant to Price Waterhouse, which was called in as the shipyard's receivers in May 1993.

Swan Hunter, which used to be the UK's leading builder of surface warships, is faced with closure if the receivers cannot find a buyer. The yard's workforce has fallen from 8,300 ten years ago to about 600 now

and time is running out. The receiver has threatened to axe the design and technical team at the end of the month and if this goes the prospects of being able to bid for major new work disappear.

France's Constructions Mécaniques de Normandie is the only company to show any interest in rescuing Swan but its willingness to take over the yard is dependent on Swan's winning new work. Ironically, one of the last chances Swan had to win new business, the refit of the Royal Navy's landing ship Sir Bedivere, went to Babcock's Rosyth yard last month.

Babcock International has also been going through a rough patch. It lost \$41.2m in its last financial year and its

facilities management division, which manages Rosyth for the Ministry of Defence, is the most profitable part of its business. It contributed £10.5m last year but Babcock's management contract expires in April 1996 and the company has to plan how to respond to the government's decision to sell Rosyth.

Babcock's new chairman John Parker is a former deputy chief executive of British Shipbuilders and his decision to bring in Marsh, another ex-British Shipbuilders executive, will be seen as evidence of Babcock's commitment to hang on to its Rosyth business. Marsh joins at the end of the month as marketing and strategic director of Babcock's facilities management division.



Per Olof Looft (above), appointed to head AT&T Intel, the European data communications and systems integration subsidiary of the US telecoms giant, is the third of AT&T Europe's recent recruits to be poached from Digital.

In February, AT&T appointed Pier Carlo Falotti, Digital's former European head, as its first European chief executive. Looft, 43, Digital's European sales and marketing vice-president, transfers to Redditch-based AT&T Intel on Falotti's coat-tails.

With 3,000 employees, Intel is AT&T's largest European venture. AT&T's European strategy remains unclear, but its deal last month with Unisource, the joint venture between the Dutch, Swedish, Swiss and Spanish national telecoms operators, underlines its commitment to the European market, and data communications will be critical to any European advance by AT&T.

Looft's experience promoting Digital in the financial services sector will be especially useful at Intel. Before Digital he was at Arthur Andersen, in Sweden and the US.

Peter Teague, Intel's current chief executive, moves to become vice president and chief financial officer of AT&T UK, which is expanding after gaining a draft UK telecoms licence last month.

H.P. Bulmer, the cider maker, has appointed Alan Flockhart, 49, as its new finance director, replacing Michael Ward, who recently took up the same role with Lloyds Chemists.

Ward in turn replaced Richard Steele, now finance director at Storehouse. Ward first joined the company in May 1989, leaving his post as finance director of Basset Foods.

Flockhart is no stranger to brewing: he is joining Bulmer from Wolverhampton and Dudley Breweries, where he has been finance director since 1985. Before that he was finance director of Scottish Brewers, a subsidiary of Scottish and Newcastle.

The UK's largest cider producer - it makes nearly half of the \$2m sales annually consumed - Bulmer recently adopted a new policy of recruiting 200 part-time tasters to help maintain quality.

Finance moves

Michael Wrobel, md of Fidelity Pensions Management, is appointed md of CARPMORE Investment Trust Management.

Mark Brumby, Kathy Clarkson, Robin Gilbert, Richard Noel, Harry Phillips and Keith Wilson have been appointed directors of PANMURE GORDON & Co.

William Eccles, Henry Hunt and Richard Simpson have been appointed directors of FOREIGN & COLONIAL MANAGEMENT.

Michael Freyd, formerly director and head of global central clearing at UBS, has been appointed a director of OBJECTIVE ASSET MANAGEMENT, Objective Asset Management (Institutions), and Objective Asset Trust Management.

Tim Henderson, coo of Leopold Joseph Holdings

(Guernsey), has been appointed a director of LEOPOLD JOSEPH & SONS.

Miller McLean has been promoted to become director, group legal and regulatory affairs and group secretary of the ROYAL BANK OF SCOTLAND in succession to Kennedy Foster who has been appointed regional manager, Central Scotland and South Fife.

John Breen has been appointed head of group property for HSBC Holdings, based in London: he is succeeded as md of Waytoong Property in Hong Kong by John Arnold, its director of property.

Andrew Pocock, a former adviser to the World Bank and former director of Samuel Montagu, has been appointed senior vice-president and manager of the London branch of GULF INTERNATIONAL BANK BSC.

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مكتبة الانشاس

Monet to Matisse is one of those curious but not unrewarding shows that adds up to a little less than the sum of its parts. The National Gallery of Scotland's 1970s extension is a poky warren of a place, but it does put a natural limit to any exhibition, forcing a disciplined choice upon its curator and keeping it to a blessedly digestible size. In this case the installation may be fussy and intrusive but, in the face of the works themselves, it is easy enough to ignore.

The trawl made by Richard Thomson through public and private collections around the world, most especially through the provincial museums of France, has yielded an exceptionally rich haul of beautiful and often unfamiliar things. He has taken them to serve his theoretical purpose: we, for our part, may relish them for themselves, and we thank him for that.

The main title is a shade misleading, for there is more to it than the narrow impressionist-to-post-impressionist line. Rather, in beginning around 1874, the year of the first Impressionist Exhibition and the coming of the eponymous epithet itself, and running on until the outbreak of the first world war, it takes landscape painting in its period in its broadest aspect, from Corot to Bonnard. Here are Salon painters such as Seurat and Pissarro, social realists such as Cézanne and Matisse, and symbolists such as Van Gogh and Gauguin, and many more, including figures besides, such as Vallotton, Le Sidaner, Roussel and Guillaumin, to set beside the great names from Monet to Picasso, Cézanne to Matisse.

Furthermore, by taking certain themes or approaches turn by turn — the Suburbs of Paris; the Channel Coast; the Mediterranean; the Ideal; Vision and Metamorphosis; and so on — the conventional chronology is overturned by the inevitable overlapping and comparisons. Early and late, simultaneity is all, making the fundamental art-historical point that artists of all kinds go on producing serious and significant work long after another generation has come in, another *ism* taken over.

Some of these groups are wonderfully strong — the paintings of Notre Dame by Matisse, Marquet and Segonzac, for example; haystacks by Gauguin, Monet and Van Gogh; two pastoral idylls — one by Roussel, of lovers beneath a tree, the other by Picasso, in his run-up to Cubism — of single figures similarly disposed. So it goes on, with painting after painting memorable for itself — Bonnard's railway train puffing one way, his barge the other; Vallotton's terrified Pantheus fleeing the furies across the dark green hills; Renoir's sunlit rocks and bushes at Vésère; Le Sidaner's town square; Seurat's Gravelines;



He may have taken the train to the countryside but there are no suburban influences here: Van Gogh's 'Wheatfield with Reaper'

Layers of Impressionism

Never mind the strategies, the pictures are fine says William Packer

Monet's le Havre water-front, his ice breaking up at Vechell, his boatyard on the Seine...

Only when we come to the rationale do we hit trouble. Having brought such lovely things together, Dr Thomson then seems to suggest that their physical and painterly qualities as works of art are not really the point at all. What fascinates him is their documentary interest in the social and economic context of the times.

the one most quintessentially modern, and the painter had to confront (sic) and find forms for change.

Monet moved to Argenteuil in the 1870s and the paintings he made there, Dr Thomson continues, "can be read as images of national reconstruction after the Franco-Prussian War... a picture of leisure along the suburban Seine could... be taken to imply prosperity and stability regained...

...a visual classification in which is inherent the notion of past, present and future: the perfect pictorial structuring... of suburban flux. It was a strategy shared with other artists.

The snag with these distinct layers, classifications, inherent notions, pictorial structures and strategies is that they relate only to Dr Thomson's own interests and readings of the work. Social developments do, of course, affect artists directly, and it is certainly true that the recent development of the railways had made the Parisian hinterland, indeed the Mediterranean, more readily accessible to them.

If a particular landscape appealed, it did so for incidental and formal reasons acknowledged more by intuition than any conscious analysis. And if a factory chimney was there instead of a church spire, or a railway rather than an old road, so be it. The mistake lies only in the ascription of motives or, as Dr Thomson would say, strategies, that were never there. The pictures are fine.

Monet to Matisse — Landscape Painting in France 1874-1914: National Gallery of Scotland, Edinburgh, until October 23; sponsored by Fondation Eif.

At Pesaro, the Rossini Opera Festival sprang into full glory on Sunday with a *Semiramide* of unusual breadth and much splendour. Where Dario Fo's exuberant version of the "dramma giocoso" *L'italiana in Algeri* was adorned by its soprano but slightly floxed by another singer or two, Hugo De Ana's grand staging of the uncut "melodramma tragico" provides an arena for Rossini singing that ranges from the excellent to the electrifying.

Afficionados with money and leisure might note that it is repeated tonight, Thursday and Sunday. On the first night in the Palazzo del Sport — renamed the "Palafestival" for the occasion — the house was large but not quite full. The production is a revival from two years back, after all, though with almost entirely new personnel, and not counting the interval, *Semiramide* takes about four hours uncut — not a prospect to be viewed lightly.

This time it can be viewed with excited anticipation. *Semiramide* was the last opera

stylishly: he finds a musical thrust even in passages which might seem datedly conventional, and with his tingling support his star singers rise to great heights.

The plot of *Semiramide* is a twisted echo of the Agamemnon story. Semiramide is the Clytemnestra-figure, Assur her guilty partner in uxoricide,

Cecilia Gasdia, a great Pesarino regular, does that as Semiramide. White-faced, greedy-fingered and at last desperate, she passes from elegant calculation to full-city despair, and her mances in all these fireworks command our sympathy and amazement. Assur and his cruel fate are incarnated by Martine Dupuy with

ing; Blake is dry-ish but clean and gleamingly metallic, with swift, mercurial, dazzlingly accurate flashes. Can any other modern tenor come close to that? Less spectacular but soundly committed, the Assur of the baritone Michele Pertusi (sole survivor, I think, from the 1992 cast) grows powerfully toward his last tortured

nakedly personal style. De Ana takes fullest advantage of the P. del S.'s reach, the better to emphasise the lonely centrality of the principals.

Warmly if extravagantly recommended, then, to those with a devoted interest in Rossini's opera series. The night before we had his *Stabat Mater* recreated almost as potently by Gianluigi Gelmetti with the same orchestra, choruses from Prague and Warsaw and two passionate soloists. The soprano Anna Caterina Antonacci and the warm, faultlessly intelligent bass Roberto Scanduzio carried all before them. The others — tenor Marcello Giordani and contralto Gloria Scalchi — were just routinely lusty, but we heard enough to be persuaded that Rossini's "conservative" Italian idiom rewards any amount of attention.

Semiramide production sponsored by the Banco Popolare dell'Adriatico. Festival tickets: tel. 01089-721-38184; fax 38979



De Ana's staging is sharper by a long way than in his recent 'Mosè in Egitto' for Covent Garden

David Murray finds singing ranging from the excellent to the electrifying in De Ana's production at the Pesaro festival

young Assur (a breeches-role) the new Orestes who comes both to avenge his father Mino — whose ghostly utterances are formidably delivered by Riccardo Ferra — and to risk succumbing unaware to his mother. None of this has the sentimental clarity of the Greek; on the contrary, the principals express themselves in wild bravura roulades, such as only deep-dyed Rossinians can deliver with conviction.

an extraordinary range of vocal colour, from submissive sweetness to backie-grabbing eruptions.

The third member of a memorable trio is the American Rockwell Blake as the extraneous character Ireno, who rabidly loves the ex-nuptial Azema (Ornella Bononelli, modestly warm and charming). By modern standards, Ireno gets some of Rossini's most impossibly virtuosic tenor-writ-

moments.

De Ana's production is sharper by a long way than his recent Rossini for Covent Garden, *Mosè in Egitto*. There, handsome *lubbies* were duly compromised by *laced* dramatic effects; here, his aesthetic contrivances for the choruses — especially all the photographic staff with spears — reinforce the tense relations between the "heroes" but leave them to get on with them in

staged by David Pountney and conducted by Jonathan Heanhen, with a cast headed by Eva-Maria Bundschuh, Vladimir Galuskin and William White. Dutch National Ballet's first programme is a mixed bill opening on Sep 5, with choreographies by Balanchine, Fernandez and Van Dantzig (020-625 5455)

ATHENS

ATHENS FESTIVAL. Seiji Ozawa conducts the Salto Kinen Orchestra tomorrow at the Odéon of Herodes Atticus, in a programme including Stravinsky's *Pulcinella* and Tchaikovsky's Fourth Symphony. Theodor Guschlbauer conducts the Strasbourg Philharmonic in French music on Sat and Sun. Kirov Ballet gives four performances starting on Aug 31. Riccardo Muti conducts the Vienna Philharmonic on Sep 6 and 7 (Athens Festival box office Tel 01-322 1459/01-322 3111)

EPIDAUROS FESTIVAL. The annual festival of ancient drama in the 1,400-seat amphitheatre at Epidaurus hosts performances of Greek classical drama on most weekends throughout the summer. State Theatre of Northern Greece presents Aristophanes' *The Birds* on Sat and Sun, followed on Sep 3 and 4 by the Peter Hall Company's production of Aristophanes' *Lysistrata*. Tickets are available daily at the Athens Festival box office or the theatre of Epidaurus on Fri, Sat and Sun (0753-22006)

CHICAGO

RAVINA FESTIVAL

Hubbard Street Dance Chicago opens a week of performances tonight, featuring choreographies by James Kudskulu and Mauricio Wainrot (daily 10 Sat). The festival ends on Sun, when Erik Kurzel conducts Ravina Festival Orchestra in a Tchaikovsky programme, with violin soloist Miriam Fried. Ravina is situated in Highland Park, within easy reach of downtown Chicago by train, bus or car. To order tickets by phone, call 312-ravina. Outside the metropolitan Chicago area, call 1-800-433-8819.

COPENHAGEN

Tivoli Tonight: Lorin Maazel conducts Pittsburgh Symphony Orchestra in Prokofiev's Fifth Symphony and Brahms' First. Thurs: Niels Mus conduct Tivoli Symphony Orchestra in extracts from operas by Donizetti and Bellini, with vocal soloists. The summer concert season runs till Sep 18 (3315 1012)

LONDON

THEATRE
● The Seagull: Judi Dench heads a splendid cast in Pam Gems's new version of the Chekhov play (National 071-923 2252)
● The Prime of Miss Jean Brodie: Patricia Hodge stars in a stage adaptation of Muriel Spark's novel (Churchill Theatre, Bromley, 18 mins by train from Victoria 081-460 6577)
● Saint Joan: Imogen Stubbs is the soldier saint in this fine staging of Shaw's wordy but gripping chronicle play (Strand 071-930 8800)
● Le Cid: A worthy revival of Corneille's landmark 17th century

drama, in an RSC production directed by Jonathan Kent (The Pit 071-835 8891)

● The Miracle Worker: Jenny Seagrove is the beautiful heroine in William Gibson's well-tailored tear-jerker about the blind infant Helen Keller (Comedy 071-369 1731)

● The Cryptogram: Lindsay Duncan and Eddie Izzard star in David Mamet's new play about betrayal (Ambassadors 071-836 1171)

● Arcadia: Tom Stoppard's complex comedy for the mind and the heart, directed by Trevor Nunn (Haymarket 071-930 8800)

● Dead Funny: Terry Johnson's brilliant, elegantly acted comedy about marriage among the emotionally retarded middle classes (Vaudeville 071-836 9987)

● An Inspector Calls: multi-award-winning National Theatre production of J.B. Priestley's psychological thriller, directed by Stephen Daldry (Aldwych 071-836 6404)

THE PROMS

Mark Wigglesworth conducts the National Orchestra of Wales in tonight's Mahler and Shostakovich programmes at the Royal Albert Hall, with baritone soloist Thomas Allan. Alexander Lazarev conducts the BBCSO tomorrow in symphonies by Shostakovich and Tchaikovsky, with John Lill soloist in Britten's Piano Concerto. Claudio Abbado conducts the Berlin Philharmonic on Thurs and Fri, followed on Sat and Sun by the Cleveland Orchestra under Christoph von Dohnanyi, who includes Britten's Earth Dances in his first programme and Mahler's First Symphony in the second.

Glyndebourne Festival Opera makes its second appearance at this summer's Proms next Mon with a semi-staged performance of its new production of Don Giovanni, conducted by Ivor Bolton (071-589 8212)

OPERA

Queen Elizabeth Hall Opera Factory tonight presents the first of six performances of Nigel Osborne's opera about Sarajevo, staged by David Freeman and conducted by Nicholas Kok (071-929 8800)

Barbican Travelling Opera presents its lively English-language productions of *La traviata* and *Die Zauberflöte*, daily from Fri to next Mon (071-836 8891)

OSLO

Konsertthuset Thun, Fri: Pinchas Steinberg conducts Oslo Philharmonic Orchestra and Chorus in Beethoven's First Piano Concerto (Simone Pedroni) and Holst's *The Planets*. The next two weeks of concerts are conducted by Paavo Berglund. Mariss Jansons conducts the orchestra's 75th anniversary concert on Sep 22 and 23, devoted to Schoenberg's Gurrelieder (tel 5103 3133 fax 2283 0793)

PRAGUE

La Petite Bande gives a concert of music by Bach and Vivaldi tonight at the Church of Saints Simon and Jude, followed tomorrow by Musica Bohemica in works by Cechini, Michna and Krek. Talich Quartet plays string quartets by Mozart, Dvorak and Janacek on Thurs at the South Garden of Prague Castle.

Libor Pesek conducts Prague Symphony Orchestra and Chorus in a concert at St Vitus Cathedral on Sat, marking the cathedral's 650th anniversary (02-2483 3111). Tickets and information for other events can be obtained at Bohemia Ticket International at Na Příkopě 16 in the city centre (02-2421 5031) or from abroad at BTI, Salvatorská 8, 11000 Prague 1 (tel 02-2422 7832 fax 02-2481 0368)

STOCKHOLM

Drottningholm Youth and Folly, an early 19th century singspiel by Edouard Du Puy, returns to the repertory tonight for seven performances. The festival ends on Sep 10 (08-680 8225)

WASHINGTON

● Miami City Ballet presents choreographies by Balanchine and Gammet tonight and tomorrow at Wolf Trap. Country singers Willie Nelson and Waylon Jennings appear in concert on Thurs, followed by Manhattan Transfer and George Benson on Fri and country singer Wynonna Judd on Sun (703-255 1860)

● Night of the Iguana, Tennessee Williams' passionate drama set in a Mexican resort, runs till Sep 11 at Olney Theatre (301-924 4485)

● Into the Woods, Stephen Sondheim's bewitching tale that includes many fairy tale heroes but doesn't have a fairy tale ending. Opens tomorrow at Signature Theatre (703-820 9771)

● The main summer show at the Kennedy Center is Miss Saigon. Daily except Mon (202-467 4600)

ARTS GUIDE

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Thursday: Festivals guide.
Friday: Exhibitions guide.

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Sky News: FT Reports 0230, 2030

SUNDAY
NBC/Super Channel: FT Reports 2230
Sky News: FT Reports 0430, 1730;

INTERNATIONAL ARTS GUIDE

AMSTERDAM

Concertgebouw Tonight: Gustav Leonhardt conducts Orchestra of the 18th Century in works by Purcell, Muffat and Bach. Tomorrow: Jan-Willem de Vriend conducts Combattimento Consort in Marini, Vivaldi, Viotti and Mozart. Thurs: Riccardo Chailly conducts Royal Concertgebouw Orchestra in Berg, Beethoven and Brahms, with piano soloist Radu Lupu. Fri: Richard Dufallo conducts Rotterdam Philharmonic Orchestra in Fauré, Ravel and Poulenc, with violin soloist Augustin Dumay. Sat: Chailly conducts works by Stravinsky and Mahler. Sun: Roberto Benzi conducts the Golders Orchestra in Debussy, Paganini, Rakhmaninov and Stravinsky, with piano soloist Enrico Pace. Mon: I Flammings chamber orchestra plays works by Wagner, Rossini, Tchaikovsky and Beethoven (24-hour information service 020-675-6711, ticket reservations 020-671 8345)

Musiktheater: The Netherlands Opera opens its new season on Sep 3 with Lady Macbeth of Mtsensk.

Peg is no panacea for hyper-inflation



PERSONAL VIEW

There has been much discussion lately of how effective a pegged exchange rate can be in stabilising the value of a currency.

(Financial Times, Economic Viewpoint: "No going back to Bretton Woods", July 28)

Pegged rates can help with stabilisation and have been central components of anti-inflation strategies in many instances, but they cannot do it alone; the right supporting conditions are also necessary.

Such conditions cannot be assumed automatically to accompany the adoption of a fixed-rate regime. This is why the record of such regimes, such as the many stabilisation plans in Latin America and elsewhere, in the 1980s and 1990s includes failures as well as successes.

At the same time, successful stabilisation has been achieved without pegging the exchange rate. It is important to review the lessons from such diverse experiences, several of which are discussed in the May 1994 edition of the IMF's World Economic Outlook.

Strict financial discipline is critical for successful stabilisation, with or without a pegged exchange rate. Large fiscal and quasi-fiscal deficits are a fundamental driving force behind the excessive monetary expansion that sustains high inflation. In high-inflation countries, attempts to stabilise prices without attacking the fiscal deficits have, at best, only temporarily succeeded.

To be sure, pegging the exchange rate can encourage financial discipline, but this effect should not be exaggerated.

The costs of failure under a pegged regime are high. Fiscally unsound programmes that have relied on a fixed exchange rate - and, in many instances, on incomes policies as well - have achieved only a temporary reduction in inflation. When such programmes eventually fail, inflation comes back with a vengeance.

During the second half of the 1980s, for example, Argentina and Brazil went through a succession of failed exchange-rate-based programmes, with inflation reaching a higher plateau after each failure. Failed programmes, whether exchange-rate-based or not, erode the credibility of future stabilisation efforts, increase the public debt, may have a high cost in terms of international reserve losses, and increase the difficulty of eventually attaining stabilisation.

Using the exchange rate as the nominal anchor has been most successful against hyper-inflation - when rigidities in domestic prices and wages and backward-looking indexation usually disappear. Most prices are quoted in foreign currency. Hence, fixing the exchange rate can immediately stabilise prices in domestic currency. This explains why in most successful stabilisations inflation has come down virtually overnight.

An important problem, however, is fixing the exchange rate at the right level, a particularly difficult task in economies in transition or others with widespread price distortions. If the rate is fixed at too high a level, competitiveness in foreign trade may be sacrificed and, with it, confidence in the currency. If the rate is too low, far from reining in inflation it may give it an additional boost.

Pegged exchange rates have also been successful in stabilising economies with a history of high, but relatively stable, inflation. However, in these cases widespread indexation in goods and financial markets imparts a high degree of inertia to inflation.

Fixing either the level or the rate of change of the exchange rate does not usually have an immediate effect on inflation, thus leading to real appreciation and often unsustainable trade deficits. Therefore, incomes policies have sometimes been used to break the wage-price spiral, as in the successful Mexican and Israeli plans, and in Argentina structural reforms such as the elimi-

nation of indexation were used. Currency stabilisation may occur even without a sizeable cushion of reserves or abundant official foreign financing. External financing may be important as a signal of international support, not least in helping to make stabilisation packages politically feasible.

In some cases, a sizeable reserve cushion has also been useful in reinforcing the credibility of the peg. However, experience shows, most recently in Argentina, that large amounts of official foreign financing are not strictly essential to support an exchange rate peg when the domestic financial situation is brought under control. Also, countries such as Bolivia and Peru floated their currencies and were able to maintain currency stability without major official external financing. The potential for private capital inflows may in any case overshadow the need for official financing.

What the past teaches us is that an exchange rate anchor is considerably less than a panacea for stabilisation, though the IMF has appropriately supported its use as part of a credible policy package in, for example, the former Czechoslovakia, Estonia and Poland.

But if the other conditions for currency stabilisation, especially fiscal consolidation, are not met, an exchange rate anchor will fail, and may make the outcome worse than if it had never been introduced.

Its main use is in enhancing the credibility of an otherwise viable policy package, especially in hyper-inflationary conditions, though even with such a package it may be useful, but not necessary.

For this reason, the IMF takes a pragmatic view of pegged exchange rates, considering their use as but one possible tool in recommending an appropriate policy package to help members reduce inflation and restore the value of, and confidence in, their currencies.

Shailendra J. Anjaria

The author is the director of external relations, International Monetary Fund

The warning on the life insurance policy was written, with suitable severity, in block capitals. Key words were underlined. The gist was simple: if you do not like our terms for surrendering policies early, too bad.

That was 60 years ago. Mr John Hylands, head of marketing at Standard Life (not the company cited above), says: "Then people who left early had 'broken their contract', and received what the life company out of the kindness of its heart decided to shell out."

"No one today would take that line, it's not viable any more." Instead, companies try harder to find ways of keeping their customers.

The change of attitude is one example of a trend by life companies towards creating financial services products that better suit the customer.

"We have moved away from the paternalism of the old days, when a chief actuary would come up with a policy which he thought would be good for people, and then the sales force went out and sold it," one chief executive comments. "Now we try to respond to what the customer wants."

Designing products that suit people appears so obvious a marketing strategy that its relative novelty seems surprising. Executives say one reason why it has taken so long to come about is the complexity of many financial products, which makes them difficult to devise and often confusing for the customers.

But now change is being forced on the industry. Consumers are becoming more sophisticated - and increasingly wary of an industry with a reputation for hard selling policies which may be inappropriate for customers.

Demand for life insurance products where the customer pays regular premiums - currently the biggest part of the market - is falling. Income from such policies fell from £2.04bn in 1991 to £1.75bn last year. In 1991, some 5.77m regular premium policies were taken out by 1993 that had fallen to 4.68m.

At the same time, new standards are being set by the industry's regulators. From next January, the Personal Investment Authority, which protects the private investor, will insist life companies give customers more information about the costs of selling a life policy and the commission paid to advisers.

Life companies are responding to these regulatory and

Alison Smith on an attempt in the UK financial services industry to meet customer needs

How to make the most of life

demand pressures in two ways. First, they are making their products more flexible. Sun Alliance, the large life insurer, earlier this year launched a life policy under which the cover provided can be varied. For instance, a customer could make provision for a bigger payout while he has dependent children and then reduce the cover when they have grown up. Premiums vary accordingly - or could be varied anyway, according to the customers' financial circumstances over time.

Second, as part of the move towards greater flexibility and transparency, life companies are starting to split - or "unbundle" - the two parts of a life policy: the "protection" part which pays out on death or serious injury; and the investment part which pays out a lump sum when the policy expires.

Earlier this year, for example, Prudential Corporation, the UK's largest life insurer, launched two policies: Prudence Family Cover and the Prudence Savings Account - which split the insurance and savings elements respectively of a conventional product. Under the scheme, the proportion of "protection" to "savings" can be decided by the customer.

Several other companies plan to launch similarly flexible products in the autumn and beyond. "There is a whole trend towards more flexible and complex products," says Mr Philip Scott, Norwich Union life and pensions general manager.

The trend towards greater product flexibility and unbundling have been welcomed by the Consumers' Association. Ms Jean Eaglesham, the association's financial specialist, says for "too long life companies have been able to get away with selling packaged products" when a more flexible approach may have benefited customers.

But the trend offers the life companies an important advantage as well: a means of combating increasing competi-



Year	Number of new policies issued	Number of policies surrendered	Number of policies in force
1990	6,500	1,500	5,000
1991	6,000	1,500	4,500
1992	5,500	1,500	4,000
1993	5,000	1,500	3,500

tion from other forms of long-term savings. By offering customised policies, life companies should be able to compete more effectively with, for instance, unit trusts or deposit accounts.

In an uncertain economic climate, in which customers are reluctant to make long-term commitments because of fears of job or wage cuts, such flexibility is an increasing demand. This has been shown by the fact that in recent years the number of regular premium policies sold has fallen while sales of single-premium policies have risen.

Another advantage for the

nies have little option but to move quickly towards offering greater flexibility, there are drawbacks.

The main problem for the companies is likely to be lower margins. As consumers become aware of the policy charges, competition will intensify, even if the volume of business expands. "Industry margins will be under terrific pressure over the next few years," says Mr Stephen Moran, chief executive of Lloyds Abbey Life, the life insurance company.

Unbundling products holds specific dangers. As the split between protection and investment becomes more common, protection-only policies could be treated like motor insurance, with quotes available by the telephone. By putting greater emphasis on price, this would add to the pressure on margins.

At the same time, the investment plans would have to compete more directly with other forms of savings - for instance Personal Equity Plans - offered by other financial institutions such as banks and building societies.

Some life companies also warn that a general move towards unbundling may not necessarily benefit the consumer. They argue that buying protection separately over the telephone would mark a departure from the approach to selling financial services urged by the Personal Investment Authority, and its parent regulator the Securities and Investments Board. The two regulators say that sales representatives should take account of a customer's overall financial needs if they are to offer sensible financial planning advice.

Though Ms Eaglesham of the Consumers' Association thinks the life companies are protesting too much, she agrees there is a risk to consumers in separating the components of life policies. The answer, she says, is to bring protection-only policies within the remit of the Personal Investment Authority.

The industry would argue against such an extension of regulatory controls - particularly given that the trend towards greater flexibility has only just begun to gather pace. It will not be clear until figures are released next year whether the life industry is selling more policies as a result of the shift. But one point is already clear: making life simpler for the customer does not make life easier for insurers.

Greater flexibility in payments should mean fewer customers giving up policies early

commitments because of fears of job or wage cuts, such flexibility is an increasing demand. This has been shown by the fact that in recent years the number of regular premium policies sold has fallen while sales of single-premium policies have risen.

Another advantage for the

LETTERS TO THE EDITOR

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Tax on paper gains would be self-defeating

From C E Chamberlain.
Sir, As a specialist adviser on executive share options, including a number of large and regional electricity companies, I was interested to read Mr Gordon Brown's comments that "options were costing the taxpayer £200m per year in lost tax revenue" ("Labour names share option 'millionaires'", August 19). I wonder if this is all it seems.

Most taxpayers expect to pay tax when they receive cash. However, under Mr Brown's proposals, executives will pay tax when they simply convert their options into shares, to swap one piece of paper into

another without any cash being received. As it happens, most executives do sell most of their new holding of shares almost immediately. As a result, they pay much the same amount of tax as if they had paid tax on the paper gains rather than their cash gains.

The only difference is the relatively small annual capital gains tax exemption, which they can employ to reduce their gains.

Possibly, some of Mr Brown's lost taxes can be recovered by withdrawing the annual capital gains tax exemption on option gains by treating them

as income. If so, then the burden will fall disproportionately on the lower reaches of employees rather than Mr Brown's "millionaire option-holders". The loss of a £5,800 exemption to an ordinary employee means a great deal more than to a millionaire option-holder.

The only way Mr Brown could raise a significant proportion of the alleged £200m lost tax he has identified is to tax the paper gains at sharply higher rates than the present 40 per cent.

Curiously, even this may be counter-productive. If employees are taxed on their paper

gains rather than cash gains, then the options may appear less of an incentive to employees who would presumably offer the benefit of share options less regularly or, more likely, only to a restricted circle of senior executives who are better placed to cope with the more complicated tax liabilities.

In any event, the end result would probably be that the total amount of tax revenues raised on share options would probably dwindle, not increase.

C E Chamberlain, Herbert Smith, Exchange House, London EC2A 2HS

Irish reunification costly

From Mr Paul Barry.
Sir, Ian Davidson, in his article "Ballot box blarney" (August 17), makes, what is to me, one of the classic errors in summarising the current situation regarding Northern Ireland and its constitutional position within the UK.

Your writer refers to recent statements by Mr Gerry Adams, president of Sinn Féin; he outlines difficulties for the terrorists on both sides; he restates comments made by the British government; he reflects on the demographic changes taking place between the Catholics and the Protestants in the province; he refers to the Spanish and French governments by way of a comparison to illustrate his opinion of

the present position. Not once does he consider the views of the people of Eire.

I have family and friends south of the border, and in a very unsophisticated survey I found that the majority of my contacts would prefer there to be no reunification with Ulster.

This is not out of any lack of nationalistic pride, but from the practical belief that Eire cannot afford to take on the cost of integrating the North. The feeling is that Eire is not a West Germany or even a South Korea. Their hearts may be for it, but it is an open question as to whether their wallets and purses are as enthusiastic.

Paul Barry, Kingston-upon-Thames, Surrey KT2 5EH

How to steer round both road tolls and evaders

From J M Reynolds.
Sir, How lucky Mr Harley is to live in such a generous country as Switzerland (Letters, August 17).

I do not believe that the majority of sensibly minded motorway users in the UK would "rebel" over paying £15 a year, or defect to the side roads. But when figures of 1.5p per motorway mile are bandied around, that could make things different.

In my own case, £15 would give me about 11 days' motorway use at 1.5 pence per mile. At a rough calculation, my annual motorway bill would be about £250 at the above rate.

With regard to any additional revenue required being added to the fuel cost then being lost into the "Treasury maw", what is to stop them "leaking" the motorway tolls?

A fairer system would be to abolish completely the Road Fund Licence, and put everything on to fuel. This would achieve the dual aim of making the user pay for road use, whether it is a motorway or otherwise, and making the tax evader a person of the past. But that is a whole different can of worms.

J M Reynolds, Ekin Drive, Everscreech, Somerset BA4 6DT

Better return for taxpayers from in-house consultants

From Mr Barry A Reamsbottom.
Sir, Sir Peter Levene fears I misunderstand both the Efficiency Unit scrutiny report on external consultants and the recent white paper on the civil service (Letters, August 13). His fear is unfounded: I understand them only too well.

I am disturbed that Sir Peter, the prime minister's adviser on efficiency, does not recommend that, rather than spend £500m on external consultants, the government might get a better return for taxpayers' money by developing and supporting an in-house civil service expertise. And I am fairly certain the bill

for that would come in at far less than £500m.

Sir Peter seems also to have developed an aversion to the term "market testing", preferring "competing for quality", a process that he claims 20 per cent-plus savings for.

The government has yet to establish how quality is to be maintained once work goes outside the civil service to a private contractor, but it has yet to take up my union's challenge to substantiate these claimed savings.

The simple fact of the matter is that in the past two years "market testing" has run up consultancy costs alone of £38m, never mind the costs of

setting up MT units in each department and agency and the cost of failed or abandoned market tests.

And John Major, his efficiency adviser, Sir Peter Levene, William Waldegrave, until the reshuffle the minister for market testing, et al have yet to produce detailed evidence to back up their claim of £135m saved by market testing.

They avoid being pinned down by pleading either "commercial in confidence" or that the work in detailing the savings figures would be disproportionate. Sir Peter also omits to mention that his competing for quality programme

is rather selective. After lots of pressure from the private sector, which keeps bleating about a non-level playing field, Sir Peter's Efficiency Unit has prevented the in-house civil service teams from playing at all - almost £770m worth of central government work has been market tested without civil servants being allowed to compete for the contracts!

Joy for the private sector but certainly not value for money for the taxpayer.

Barry A Reamsbottom, general secretary, The Civil and Public Services Association, London SW11 2LN

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FINANCIAL TIMES

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Tuesday August 23 1994

Unfinished revolution

Few men, if any, have transformed their country upon attaining supreme power at the age of 73. When the country that has been transformed is home to more than a fifth of the world's people, the achievement is of far more than local significance. Arguably, Deng Xiaoping's role in liberalising the Chinese economy makes him the world's most significant political leader of the second half of the 20th century. But his failure is on almost as grand a scale as his successes. A yawning gulf has opened up between what, as a Marxist, he would describe as the economic base and the political superstructure. China's future, perhaps even the world's, depends on whether, and how, that gulf is closed.

Mao Zedong would be at the head of any list of history's ideological fanatics. Deng, with his insistence on the need to seek truth from facts, is the supreme pragmatist. His invention of "socialism with Chinese characteristics" was a stroke of genius. He knew that the capitalist rose could smell as sweet under a socialist label. What mattered to him was not ideological consistency, but unleashing the talent and drive of the Chinese people.

Under Deng, the market has been brought into China, while China has erupted on to the global economy. Between 1977 and 1989, China's gross domestic product rose more than fourfold; the dollar value of its exports increased tenfold; and the annual inflow of direct investment rose from virtually nothing to \$26bn. Above all, hundreds of millions have experienced a transformation in how they live now, and how they hope to live tomorrow.

China's economic success has also transformed what the economic development of east Asia, hitherto confined to relatively small countries, signifies for the world as a whole. This is no longer

just another change in the distribution of global economic activity. It heralds the end of roughly half a millennium of European dominance. The 21st century will, it is said, be the Pacific century. More probably, it will be China's century.

The question is what sort of China this will be. A price has had to be paid for Deng's pragmatism, just as a far greater one had to be paid for Mao's fanaticism. He has let sleeping political dogs lie. But whenever they wake, they bite. The price includes a party without its ideological raison d'être, a society without the rule of law, and a political system without checks and balances. The massacre in Tiananmen Square is a black mark against Deng's name. It was a sign of panic. But it was a sign, too, of his failure to adapt the political system to the changes brought about by China's economic success.

It may be that Deng had, in truth, no realistic choice. He is, to his credit, no arbitrary despot prepared, like a Mao or a Stalin, to butcher his opponents in millions. He wooed the Communist party, which they cowed. But this failure to secure political reform, or even a credible successor, leaves his legacy vulnerable to chaos, or reversal.

The probability, in fact, is that these policies will not be reversed. To do so would require deindustrialisation and bloodshed on a horrifying scale. Chaos is understandably feared by the Chinese. But the problem is as likely to be a different one: the arrival on the world stage of a giant economic power that is also an arbitrary, often a xenophobic, despotism. Grim for everyone else, Deng, 90 yesterday, has clearly failed to rise to the challenge of political reform. For China's sake, as well as that of the rest of the world, his successors must not fail too.

Bank raids

The British may fall short of the Americans in the degree of hostility they show towards the banks, but the politics of knocking the UK financial community is no less crude for that.

In the case of the Tories, the deed is usually done in the name of fiscal expediency. The arbitrary levy on non-interest bearing bank deposits in 1982 was an opportunistic response to the coincidence of distressed public finances and high banking profits. The more recent adverse change in the tax treatment of pension fund dividend receipts came at a time of high dividend payouts and an unprecedentedly high public sector borrowing requirement.

With Labour, populism tends to be the beginning and end of it; and it is hard to see any broader rationale in the interest shown by the Labour shadow chancellor, Mr Gordon Brown, in attacking bank charges. True, fee income has gone up as the banks have sought to compensate for the decline in profitability of their core lending business. Yet most personal customers - and that is where the political sensitivity lies - are enjoying an astonishingly good deal from the banks.

For the 80 per cent who do not run an overdraft, current account services, including the hugely expensive payments system, come largely free. Not that the banks are happy with that. Such is the competition in this area that whenever one of the clearers tries to eliminate the cross-subsidy to customers in credit, another can be relied on to give free-in-credit banking a new lease of life. That has now extended to offering interest on current account balances.

A more interesting question arises in the case of the minority who borrow. Many face overdraft rates of more than 19 per cent, while the rates on small personal loans and credit cards are well over 20 per cent. With the headline rate of inflation down to 2.3 per cent this is a swinging levy in real terms. Yet attempts at price cutting by individual banks have had little impact.

This raises interesting questions about the nature of banking competition. Interesting, but not crude enough for the political mill. The banks behaved insensitively in the recession; they now have a short-term bonanza; ergo, they must be bashed. So there.

Phone rules

Telecommunications used to be regarded as a natural monopoly. A decade after the break-up of AT&T in the US and the privatisation of BT in the UK, competition in long-distance and international telecoms is now a way of life across much of the developed world, although not, alas, on most of continental Europe.

Within more dynamic markets - notably the US and the UK - the debate now focuses on the extension of competition to local telecoms. The US Congress is grappling with legislation to abolish the local monopolies of the seven regional Bell operators. In the UK, cable companies - mostly US-owned - are attracting 40,000 phone subscribers a month, but the rules for future competition with BT remain unclear.

Two questions dominate the regulatory debate on both sides of the Atlantic, albeit in different forms. Should regulation be skewed in favour of new entrants? And as telecoms networks are upgraded into "superhighways" carrying inter-active entertainment and information services, what steps should be taken to ensure nationwide provision?

The telecommunications bill currently before the Senate would, in effect, allow US cable operators to provide telephone services across their networks within a year. The Baby Bells, by contrast, stand to face a lengthy regulatory battle, in the name of universal service, before they are allowed to compete with the cable operators. In the UK, BT is prevented by an

outright ban from competing with cable operators in domestic broadband entertainment services.

Both sets of restrictions are likely to disadvantage consumers, contrary to their avowed purpose. In place of detailed universal service rules, the US would do well to impose a UK-style regime on Bell operators wishing to compete in cable services. In return for a franchise covering a designated area, they would be required to offer services across the area, within a set timescale - but would otherwise be largely free to compete. In the UK, the government should follow the recent advice of a House of Commons committee and announce a firm date for lifting the BT entertainment ban, so that one monopoly is not succeeded by another as optical-fibre local networks render existing copper wires obsolete.

Policy-makers are understandably anxious that these "superhighways" do not become the preserve of a privileged few. Population coverage targets and obligations to connect public sector institutions, such as schools, are desirable safeguards. There is also a case for uniform tariffs for basic services, although the definition of "basic" is problematic in the new inter-active age.

It is important, however, that regulation does not so hamper the operators that they delay in building the networks at all. To seek to regulate in advance for every eventuality is a recipe for manifold regulators but precious few services.

Seventeen years ago, the little village of Gorleben was a forgotten backwater on the banks of the river Elbe, a stone's throw from East German no-man's land.

Today its name is synonymous with an impassioned debate over the future of Germany's nuclear power industry.

The fate of Gorleben could decide whether nuclear power has a future at all in Germany. It could also have a big influence on the attempts by other countries - such as the UK, Sweden, Switzerland and many others - to find an economic and publicly acceptable way of disposing of their nuclear waste, most probably underground.

In 1977, the village was a depopulated rural retreat in a blighted border area of West Germany, its main roads cut on three sides by the East German frontier. It was the ideal place to put something unpleasant - like a nuclear waste dump.

At the time, the government called it a "nuclear park", and planned to include a huge reprocessing plant, employing 5,000 people, as well as excavate a vast underground cavern in the nearby salt deposit, to dispose of highly radioactive waste. It would have been the German equivalent of Britain's Sellafield, or France's La Hague, with waste disposal thrown in.

Seventeen years and interminable planning inquiries later, not to mention changes of government both in Bonn and Hanover, capital of the local state of Lower Saxony, and innumerable protests, sit-ins and marches, the reprocessing plant has been abandoned, and the waste disposal plan is still the subject of furious resistance.

A huge interim waste disposal site has been developed behind three-metre-high security fences and a rampart of earth. But the biggest storage shed, for containers full of highly radioactive materials, is still standing empty after 11 years.

On the same site, an extraordinary "pilot conditioning plant" is being built, with massive reinforced concrete walls, 1.5 metres thick, where the waste has to be repackaged into containers capable of keeping it underground for its entire half-life - of 10,000 years or more. Objections to its construction from the state government and environmental groups have delayed completion by at least two years already.

Over the road, just 1km outside Gorleben village, two deep shafts have been sunk into the salt "dome", to carry out exhaustive tests on its quality and consistency to see if it can safely be used as a permanent deep storage site for the waste.

To complicate matters, since 1980 Gorleben has been at the heart of a hostile frontier. The banks of the river Elbe have been designated as a nature conservation area, and the idea of putting nuclear waste down a salt mine on its doorstep seems incongruous in the extreme.

In recent weeks, hundreds of demonstrators have blockaded the entrance to the interim waste disposal site. They built a makeshift village, and tried to tunnel under the road, to block deliveries of the first cast-iron containers containing nuclear fuel elements to the temporary store.

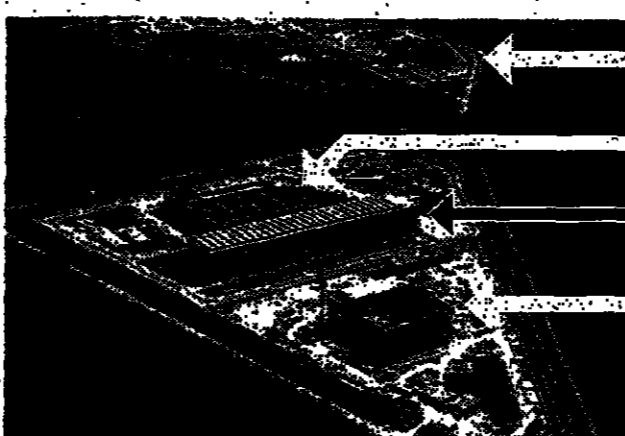
They were forced to move, but an attempt by Mr Klaus Töpfer, the (Christian Democrat) federal environment minister, to negotiate an agreement on the deliveries last week with Mr Gerhard Schröder, the (Social Democrat) state premier in Lower Saxony, failed to break the latest deadlock.

Yet if agreement cannot be reached on the storage plans, it is not only Germany's powerful nuclear industry, with 20 atomic energy plants churning out electricity, which will be held in ransom. The irony is that the opponents of nuclear energy, including a clear majority of the opposition Social Democratic party (SPD) and the whole of the environmentalist Green party, also need to find a waste disposal site somewhere in

Germany's nuclear fall-out

Quentin Peel examines the increasingly controversial debate on how best to dispose of the country's nuclear waste

Germany's nuclear waste: a running sore



Germany to bring the industry to a halt. If the power stations are to close, something must be done with their waste.

"With nuclear waste, to do nothing is worse than doing something, whichever side you are on," says Dr Rolf Meyer, spokesman for DBE, the state-owned company responsible for excavating and evaluating the Gorleben salt mine. So both sides know that, really, they have to reach some compromise.

For a long time, the anti-nuclear lobby has identified the disposal of nuclear waste as the weak link in the German nuclear chain, and therefore the best target to attack in trying to force the country to abandon nuclear power altogether.

Hitherto, reprocessing of spent nuclear fuel has been the preferred German approach, on the grounds that it would maximise re-use of the original raw material, and minimise the eventual waste for disposal. Big reprocessing contracts have been signed with France's Cogema and Britain's BNFL lasting into the next century.

The problem is that reprocessing is very expensive; it produces plutonium, which is dangerous because it can be used for weapons manufacture, and which requires in turn being transformed into mixed oxide (MOX) fuel elements to be re-used in nuclear power stations; and it means that Germany remains committed to nuclear power generation for the foreseeable future. On top of that, it still produces a small amount of highly radioactive nuclear waste which has to be got rid of somehow.

The alternative - direct disposal of spent fuel elements - is seen as much cheaper, and it does give Germany the option eventually of closing down its nuclear power stations, and switching back to conventional forms of power generation.

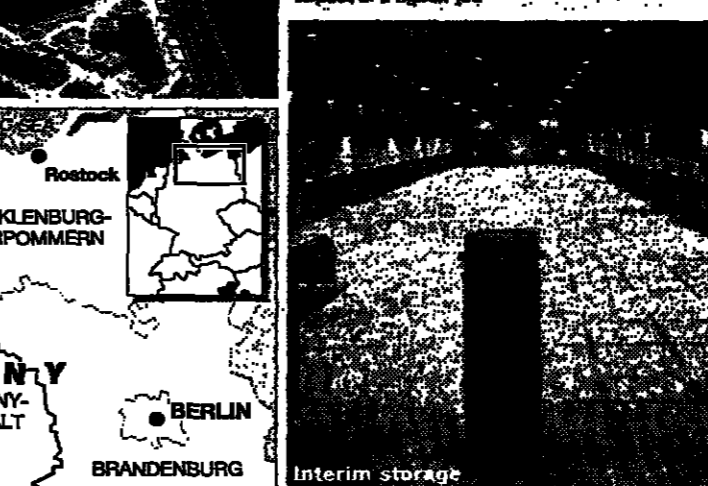
The Greens and the rest of the anti-nuclear lobby have targeted the weak links in the nuclear chain in

containing waste deposited in salt mines, for up to 10,000 years. Planning approval has not yet been granted. The waste, left in the nuclear chain.

A functioning interim disposal site for low-level nuclear waste.

Interim storage site for highly radioactive waste. Waste stored for 40-50 years. Has been empty for 11 years.

"Pilot conditioning plant" for building containers of waste into compact containers. The walls are 1.5 metres thick, designed to withstand the impact of a fighter jet.



two ways: they have sought to block approval of Gorleben as a waste disposal site at every stage of the process; and they have so far successfully blocked a series of building and planning licences for Siemens's MOX fuel element plant at Hanau, near Frankfurt, which is standing 95 per cent complete, at a cost to date of DM1.1bn (\$461m).

The environmental blockade against both plans has proved remarkably successful so far, and has caused great frustration in the nuclear power industry. Both the big northern electricity utilities - RWE in Essen and Veba's PreussenElektra in Hanover - have shown serious signs of being tempted to pull out of nuclear power generation altogether, although they deny it officially. They are observing a *de facto* moratorium on plans for any new

safety of the Castor cast-iron containers being sent across country from the Philippsburg power station in Baden-Württemberg. In the middle of a general election campaign, no one can afford to seem complacent.

The vast echoing hall built for the high-level waste stands empty. It has the capacity to take 420 of the Castor containers, each one separately wired up to monitors, which check that the pressure between their double lids remains constant. In case of a leak, highly radioactive waste will also be delivered from La Hague and Sellafield in vitrified glass containers, the first due from France before the end of the year.

The containers are supposed to stay there for six years at least, while they cool down from their initial 200°C. After that, they are supposed to go to the "conditioning" plant to prepare for permanent disposal in the salt mine.

"The building is simply for protection from the weather," says Mr Jürgen Auer of Brennelemente-Gorleben (BLG), which runs the site. "The containers are what are supposed to be secure."

The pilot conditioning plant has been built, as Germany's safety laws require, strong enough to withstand an earthquake, or the impact of a jet aircraft flown into it at full speed. At its heart is a T-shaped core which will be totally sealed from human entrance, or the escape of radiation inside it.

Inside the cell, which has stainless steel plates bolted to its walls to be washed down for radiation, the Castor containers are to be opened, and the fuel elements compressed by remote control, before being repacked in 55-tonne Polux containers for permanent disposal. Humans will supervise, watching through massive lead-glass panes.

The final stage in the process, if it ever comes to pass, will be the disposal of the radioactive material underground in the salt mine.

'If a sparrow dies here on the mine, the newspaper will try to find out why. Every detail of our job is in the public eye'

nuclear power stations. What they want above all else is some sense of certainty about the future of the industry - and about what they are going to do with their toxic waste.

This month, Siemens won an important legal battle in the supreme administrative court in Berlin, which rejected challenges to three building licences for the Hanau plant. But complaints are still outstanding against two further building licences, and four licences for the actual process of uranium and plutonium processing.

As for Gorleben, even delivery of waste for interim storage still appears to be blocked, most recently thanks to fears about the

The huge deposit goes down to at least 4,000 metres, and the plan is to excavate a complex of tunnels some 14km long, 4km wide, and up to 3.3km deep.

One of the great advantages of salt is that it "creeps": after being hollowed out, it will gradually close in again on whatever has been stored. It also conducts heat, allowing the very hot waste to cool, and it does not conduct water. However, it is not pure, and some forms of salt contain water in crystalline form: if it gets warm, it could dissolve and flow towards the source of the heat.

Hence the need for exhaustive checks on the precise "geo-mechanical" properties of the Gorleben salt deposit, conducted with legendary German efficiency: so far, 120km of borings have been carried out and tested over the past 14 years.

Dr Meyer, spokesman for the DBE, is philosophical about the whole exercise. "I sometimes wonder how they would ever have built the Pyramids, or the Great Wall of China, if they hadn't had slaves," he says. He expects a final decision on whether the project will go ahead or not after the turn of the century. Then it will take another six years to prepare - providing storage space for another 70 years.

The mining project is being pursued with fanatical attention from the local media. "If a sparrow dies here on the mine, the local newspaper will call up to find out why," Dr Meyer says. "Every single detail of our job is in the public eye."

But the most challenging task of all, he believes, has nothing directly to do with the mining. "How do you identify a nuclear waste disposal site for 500 years," he asks, "let alone for 10,000?"

The use of Gorleben as Germany's main site for nuclear waste disposal has been a burning political issue in local politics, ever since it was first mooted by the Christian Democrat government in Lower Saxony in 1977. Traditionally, the federal government in Bonn, where SPD and CDU, has tried to push the plan along, and the state government in Hanover has resisted - regardless of political party.

Today Mr Gerhard Schröder, the SPD premier in Hanover, insists that other sites must be investigated - preferably in granite deposits in southern Bavaria, the state most committed to nuclear power.

At the end of the day, the issue does not simply divide the country between left and right, between environmentalists and the pro-industry lobby. It also divides the country between north and south.

The northerners, including their electricity utilities, RWE and PreussenElektra, would not mind giving up nuclear power altogether. They could provide alternative energy from coastal power stations fired by gas or cheap imported coal. RWE has enormous reserves of relatively cheap brown coal.

The southerners, including the third main generator, Vieg's Bayernwerk, are far more dependent on nuclear power. They have no coastline and no cheap imported alternatives. So they remain firmly committed to the nuclear route.

No wonder few expect an early resolution of the conflict.

The outside chance of a coalition of left-wing and environmental parties winning the October national election would certainly mean a firm decision to abandon nuclear energy. Ironically, because of the need to find some way of disposing of the waste, it would probably mean a relatively swift decision to go ahead with Gorleben, at least for interim storage.

The more likely outcome, either of a continuation of the present conservative-liberal alliance under Chancellor Helmut Kohl, or a grand coalition of CDU and SPD, could leave a continuing stalemate. Then both sides will be forced to try to negotiate an energy consensus, and reconcile their differences. What the industry fears is that any such compromise will simply leave it in continuing uncertainty.

OBSERVER



"Shut up while I caution you"

Harbour and equipped himself with a PhD in "neural networks", a sexy computer model which apparently "learns from its mistakes", and a resident psychologist who analyses what "frightens" markets.

So what does brother Paul think of his new competitor? "He said he hoped I did well," says Philip cheerfully, "because I was using the family name and crest". At least he didn't call it Manduca & Co.

Designer water

First the long march; then the cultural revolution; now the superlative upheaval. China intends constructing 1,000 public

conveniences at its most famous tourist spots by 1996, in order to staunch the flow of complaints about its equally infamous public toilets.

The State Tourism Administration and the Ministry of Construction are jointly spending 30,000 yuan - about \$3,487 - on each new loo. In Beijing, officials have launched a city-wide Contest of Best Lavatory Design.

Apart from good lighting and ventilation, each will also have a supervisor to maintain cleanliness; the most diligent will stand the chance of winning an annual reward.

"No smells of any kind will be tolerated," says a Chinese official. That's a relief.

Hello, Dolly

And now, Observer proudly brings you the sentimental quango. No, not a soft-centred version of the tango, but the Highways Agency, set up earlier this year to take over direct responsibility for the UK government's road building programme.

When established, the quango promised "the best possible service to those affected by roads". Presumably its latest press release - four pages on the case of Dolly Watson, 93 - is all part of that service.

Watson lives in the path of the extension to the M11 motorway, now under construction in east

London and the subject of fierce protests from opponents - including Dolly, as the press release likes to call her.

She collapsed five days ago with a suspected mild stroke and is still in hospital. But the agency rebuts claims that Watson has been badly treated.

It says it's appointed an officer to maintain personal contact with her; has offered to provide a car so she can visit her replacement home; and will not evict her while she is making visits to alternative accommodation.

If only the protesters had not prevented them, agency staff would have explained all this personally to Dolly, says the release.

Sounds a bit like Highway Fobbery.

Beering up

According to PUSHER, once known simply as the Polytechnics and Universities Students Handbook, average UK student indebtedness stands at £318 per year, up from £214 last year.

Student debt was predictably high in London, with an average level of £1,077. But the highest level of indebtedness was in Leeds, at £1,900 per year.

In a completely unrelated finding, PUSHER says the institution with the cheapest student bar was the University of Leeds - which also happens to have the biggest retail beer outlet in the country.

Jubilado luminoso

What is it about being president of Peru that attracts the most unusual candidates? Last time round, in 1990, there was the spectacle of an agricultural college professor - Alberto Fujimori - slugging it out against a novelist - Mario Vargas Llosa.

Now Javier Pérez de Cuéllar, former secretary-general of the United Nations, has tossed his bonnet in the ring for the 1995 rematch, when El Chino - as Fujimori is affectionately if inaccurately known - is likely to stand again. His wife, Susana Higuchi, also wants to run. First she has to overcome a recently passed law preventing presidential spouses from competing.

At 74, you might think de Cuéllar would prefer his retirement in Paris, where he can enjoy his favourite Schubert piano sonatas in tranquility. But no: "Peru is lost if nothing is done. I believe I have a duty," said de Cuéllar recently.

What can he mean? Fujimori has presided over a magical economic turnaround; 11.8 per cent growth so far this year, making Peru Latin America's most dynamic economy. Inflation has collapsed from 1990's peak of 7,500 per cent to a probable 20 per cent this year.

Perhaps he's thinking of Fujimori's less sparkling record when it comes to keeping military

hard men in their place. De Cuéllar knows all about that: from his success first in keeping the Argentine junta out of the Falklands in 1982, and then in persuading Saddam Hussein to pack up and walk out of Kuwait in 1991.

Still, de Cuéllar, who counts among many honours a 1987 honorary D.Lit from the Mongolian state university, can be forgiven for sounding out of touch; he's spent most of the past five decades anywhere but Peru.

Shrink-wrapped

Most city folk have heard of Paul Manduca who has powered through the money management business to become boss of the \$200m Threebridge Asset Management group at the age of 42. And some might even have heard of his younger brother, Francis, 30, a fund manager at Gartmore.

But another Manduca has popped up in the money management game, and, unlike the other two, he is not a hired hand. Philip, the second youngest brother, has set up his own hedge fund. Fresh from three years managing family money in Palm Beach, he's started Sant Cassia Investment Management which takes its name from his Maltese father and hopes to make its clients rich by dabbling in exchange-traded futures and options and other exotic.

He has set up shop in Chelsea



VW aims to double Polo sales with launch of redesigned range

By Kevin Done, Motor Industry Correspondent, in Paris

Volkswagen, the leading European carmaker, is aiming to almost double sales of its VW Polo small car in western Europe with the launch of a new range developed with an investment of DM1.5bn (\$1.14bn). Mr Ferdinand Piech, chairman of the VW management board, said the group was aiming to increase sales to 350,000 in 1995 from 189,000 last year.

The launch of the new generation Polo is a vital step for the VW group, which is seeking to recover from record losses suffered last year and to arrest the erosion of its market share in western Europe. Mr Piech warned that the improvement in western European new car demand in the first six months had faltered in

July, when VW new orders had fallen back to the same level as last year.

VW had a strong order book from the second quarter, which would cushion its production in the autumn, but he warned that its financial performance could be harmed if the renewed weakness in demand carried on through the second half of the year. Last week he forecast that the VW group would break even for the full year following a DM1.94bn net loss in 1993.

The new generation Polo, which was unveiled in Paris yesterday and which will go on sale in most western European countries in the late autumn, will be built at VW's plants in Pamplona in northern Spain and at its main plant at Wolfsburg in northern Germany.

VW has fallen far behind its

main rivals in the west European small car market with its outdated current Polo, which was first launched in 1981, and is still dangerously dependent on its Golf/Vento small family car range.

The Polo languished in sixth place last year in the small car segment of the west European market with sales of only 108,000, behind the Ford Fiesta (444,000), the Renault Clio (425,000), the Fiat Uno (352,000), the Opel Corsa (346,000) and the Peugeot 106 (288,000).

The small car sector is gaining in importance and currently accounts for about 28 per cent of all new car sales in western Europe. VW urgently needs a competitive car in this market, where both General Motors of the US (Opel) in continental Europe and Vauxhall in the UK and Fiat

of Italy have launched strong rivals in the shape of the Fiat Punto and the new generation Opel/Vauxhall Corsa.

Mr Piech conceded that the group had waited too long to replace the current 13-year-old Polo and said that VW was aiming to cut its model life cycles to six years. VW intends to produce 350,000 new Polos next year with output of 1,000 a day at its Pamplona plant and 530 a day in Wolfsburg.

Production of the current Polo was suspended in Wolfsburg in July 1993 as sales fell, and output last year at the Pamplona plant fell to only 864 a day.

While the current Polo was only built in western Europe, Mr Piech said that the new generation Polos could also be built overseas and might also be sold in the US.

Taiwan renews bid to stop vote fraud

By Laura Tyson in Taipei

Taiwan yesterday renewed its efforts to stamp out a multitude of ingenious vote-buying schemes ahead of important elections.

In a bid to keep pace with the spiralling costs of electioneering, the government raised its reward for information leading to vote fraud convictions to \$385,000. Mr Ma Ying-jeou, justice minister, said officials would shortly begin monitoring candidates and gathering evidence.

Elections for governor of Taiwan province and for provincial assembly members will be held on December 3.

"We will have to come up with detailed plans because many candidates are starting early - extremely early - their prepara-

Government raises reward for informants ahead of elections

tions or other illegal methods," Mr Ma said. "The criminal methods used in elections change with each passing day, and candidates are continuously inventing new schemes."

One popular method of winning voters' affections is to throw lavish banquets at which each guest is given a present - perhaps a can of tea with T\$3,000 - T\$5,000 (\$115-\$190) in the bottom or an expensive watch.

At the grassroots level, aspirants to political office may give gifts such as stoves to each family in a district. In county elections last November, one candi-

date held a county-wide lottery which was actually a disguised vote-buying scheme.

While Mr Ma is considered above reproach, some viewed the ruling Kuomintang's offers of reward as a case of the fox guarding the henhouse. "Only the KMT can really buy votes," one observer said. "Not only does it have the money, but it has the party machine. It has the on-the-ground administration to get the names, addresses, telephone numbers and background of each family."

Mr Ma launched a high-profile anti-corruption campaign in 1993

and is credited with the arrest of 341 of 383 councillors elected early this year.

Buying votes is estimated to have a 30-40 per cent overall effectiveness rate. In cities, people are inclined to take the cash and vote as they please, but in the countryside seven or eight out of 10 people will vote for the candidate who bought their vote.

Observers doubt that vote fraud can be obliterated, in part because such activities are often legally ambiguous, and in part because giving *hampers* - red envelopes, or gifts - is ingrained in Taiwanese culture.

Most people regard such practices not as corruption but as a gesture of respect by the candidate. After all, they argue, it is troublesome to go to the polls.

Scalfaro defends central bank against government attacks

By Andrew Hill in Milan

President Oscar Luigi Scalfaro of Italy yesterday defended the country's central bank against what he described as "forms of aggression" by members of the Italian government after it raised two key interest rates nearly two weeks ago.

Speaking at the forum for central European heads of government in Alpbach, Austria, Mr Scalfaro said "everyone, beginning with the people in government, must respect (the bank's) autonomy".

Tension between some members of the government and the Bank of Italy has increased in the last fortnight, since the bank decided to raise interest rates by half a point to defend the Italian currency against the effects of squabbling within the coalition. Instead of strengthening the lira, however, there was a further

decline in its value against the D-Mark.

Members of the extreme right National Alliance, one of three main coalition partners, also attacked the central bank last week for allegedly interfering in the proposed merger between Banca Nazionale delle Comunicazioni - controlled by the Italian state railways - and San Paolo di Torino, one of the country's biggest banks. Other National Alliance members have threatened Mr Antonio Fazio, the central bank governor, with court action, and accused the bank of misusing funds.

Mr Scalfaro did not name the Bank of Italy's critics yesterday, but he reminded them that the central bank's independence provided "security for everyone".

Mr Publio Fiori, the National Alliance transport minister, has accused the central bank, in its role as banking supervisor, of

trying to push BNC into a merger with San Paolo, instead of considering solutions which would preserve BNC's special relationship with the state railways.

The Bank of Italy has refused to comment on the BNC affair, but yesterday Mr Fiori met with Mr Lamberto Dini, the Treasury minister, to discuss a possible solution to the BNC affair ahead of a board meeting called for Saturday. According to a Treasury statement, solutions could include "varying the form of the deal".

One criticism levelled at the San Paolo merger is that it would involve an exchange of shares, whereas a smaller bank, Cassa di Risparmio in Bologna, has made a cash offer.

Banking sources yesterday expressed bemusement at the way in which the deal between BNC and San Paolo has been blown up into an important affair of state.

US bank settles bias case

Continued from Page 1

Reno said. Both the Justice Department and federal bank regulators have stepped up efforts to enforce fair lending laws.

In one of the biggest cases, the Federal Reserve refused to allow Shawmut National to acquire another bank because of patterns of lending bias until Shawmut had overhauled its lending procedures and reached a settlement with the Justice Department.

Other big banking groups on the acquisition trail, alerted by the Shawmut case, have taken preemptive steps to expand their lending to minorities.

But yesterday's settlement is the first where the Justice Department pursued denial of service to an entire area. "You can't be refused service if there is no service being offered," said Mr Deval Patrick, assistant attorney-general for civil rights.

THE LEX COLUMN

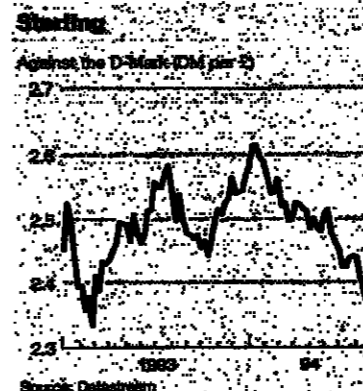
Milk turns sour

It did not require a profound knowledge of game theory to predict that the new mechanism for setting prices in the UK milk market could go badly wrong. After three rounds of a blind auction by Milk Marque, the co-operative that controls two-thirds of the country's milk production, the dairy industry was still bidding for more milk than was on offer. By stopping the process at that point, Milk Marque has in effect admitted that the auction process was flawed.

Whether, as it argues, it called a halt before much of the industry bid itself out of business remains to be seen. Not only were milk purchasers prepared to take the bidding higher, the big dairy groups have offered a premium above the Milk Marque price to farmers prepared to supply them directly. But, in itself, this does not undermine the industry's claim that serious damage will be done by the new prices.

The liquid milk business, where the likes of Northern Foods and Unigate make good returns, faces the smallest price increase, though it will be difficult to pass on much of the rise into the declining doorstep market or the price-warring supermarkets. It is butter and cheese producers who will be hit hardest because their milk prices were artificially low under the old regime. Returns here are already fairly meagre and the price rises proposed are likely to hasten a reduction in overcapacity. The banks have just decided to pull the plug on the Scottish Milk Marketing Board's Galloway Cheese Company. Unless Milk Marque is forced to relent, an early flotation of Dairy Crest looks out of the question.

FT-SE Index: 3171.3 (-20.1)



Source: Datastream

est rates will be raised in good time. The nagging doubt may be that recent data makes an early rise unlikely, after which other considerations notably the political party conference season - are excuses to delay.

If the markets are tempted to try to force the chancellor's hand, though, considerable pressure will be required. After the retreat from the exchange rate mechanism two years ago, the policy agenda. Besides, on a trade-weighted basis sterling has lost only 5 per cent this year and is well above the low-point touched last February. While a steadily devaluing currency must give the authorities pause for thought in a period of above-trend growth, sterling's strength against the dollar might actually help keep input costs under control.

Underwriting profits

It is hardly surprising that the Inland Revenue is examining whether sub-underwriting commissions received by pension funds can be brought into the tax net. A recent study for the Office of Fair Trading concluded that profits from underwriting were excessive. And, much as the pension fund industry protests that one-off disasters like the 1987 BP share sale can wipe out years of profits, to the outside world the business looks like money for old rope. Tax officials are unlikely to be put off by arguments that the sums of money are just not worth collecting.

The issue will turn, in the first instance, on the almost theological question of whether pension funds are engaging in a trade when they sub-underwrite shares. That, in turn, revolves around whether the activity is a regular or only an occasional source of profits. If the industry loses this point, it will fall back on the argument that, in sub-underwriting issues, it is effectively selling insurers put options. So any trading it is engaged in is option trading - an activity where it already has tax exemption.

The industry's final line of defence will be that taxing sub-underwriting fees will push up the cost of capital. All other things being equal, taxing the commissions would tend to increase the cost of capital because sub-underwriters would put up their fees or leave the market. But, if profits are as high as most observers think, a tax could be easily accommodated without any adverse effect.

Sterling

It is difficult to judge whether the downward drift of sterling simply reflects the weakness of the dollar or is a sign of anxieties closer to home. Yesterday's economic figures give no obvious reason to worry. Second-quarter growth was higher than anticipated, but exports led the way. The currency markets can hardly fret about the balance of payments. Consumer spending has fallen back since the end of last year, which together with last week's retail price figures should soothe nerves about inflation. Even the political worries which unsettled financial markets earlier in the year have faded.

With growth running so far above trend, inflationary pressures are sure to reassert themselves. But that should not undermine sterling so long as the market is confident that inter-

Mannesmann

Restructuring old businesses and diversifying into new ones are paying off for Mannesmann. The group's mobile communications venture made its maiden profits contribution in the first half. That should please foreign investors in particular, who have bought the stock on the basis that Mannesmann Mobilfunk was the German equivalent of Vodafone.

Equally, the painful process of cutting jobs and shifting production to cheaper locations outside Germany helps explain the swing into profit by the automotive components business and the move to break-even by the tubes division. Mannesmann's new chairman, Mr Joachim Funk, yesterday made clear there is more of the same to come.

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FT WEATHER GUIDE

Europe today
Cool air will spread over France and the Benelux, producing showers. The north-west may have thunder. Afternoon temperatures in France will stay around 18C. Steady rain and blustery showers will keep temperatures at moderate levels over the British Isles and there will be gale force winds on the south-east coast of Ireland and England. Skies will clear along the western coasts of Scandinavia but retreating rain over the Baltics will still keep clouds over southern Sweden and Finland. The Alps will be rather warm with rain and thunder showers. Central and eastern Europe will be cloudy with showers but southern areas will stay dry and warm. Fresh northerly breezes and isolated showers are expected in Russia.

Five-day forecast
Unsettled and cooler conditions will spread further east from western Europe. During the second half of the week, wind and rain are expected over central and eastern Europe and along the Baltic Sea. There is a risk of very heavy rain in the Alps and Germany. South-west Europe will remain mostly dry.

TODAY'S TEMPERATURES

Maximum	Minimum	Weather	Maximum	Minimum	Weather	Maximum	Minimum	Weather	Maximum	Minimum	Weather
Abu Dhabi	31	sun	29	25	sun	32	28	sun	33	29	sun
Accra	31	sun	29	25	sun	32	28	sun	33	29	sun
Algiers	31	sun	29	25	sun	32	28	sun	33	29	sun
Amsterdam	18	cloudy	15	12	cloudy	18	15	cloudy	20	17	cloudy
Athens	31	sun	29	25	sun	32	28	sun	33	29	sun
Atlanta	31	sun	29	25	sun	32	28	sun	33	29	sun
B. Aires	31	sun	29	25	sun	32	28	sun	33	29	sun
B. Hong	31	sun	29	25	sun	32	28	sun	33	29	sun
Bangkok	31	sun	29	25	sun	32	28	sun	33	29	sun
Barcelona	31	sun	29	25	sun	32	28	sun	33	29	sun
Buenos Aires	31	sun	29	25	sun	32	28	sun	33	29	sun
Calcutta	31	sun	29	25	sun	32	28	sun	33	29	sun
Cardiff	18	cloudy	15	12	cloudy	18	15	cloudy	20	17	cloudy
Cebu	31	sun	29	25	sun	32	28	sun	33	29	sun
Chengdu	31	sun	29	25	sun	32	28	sun	33	29	sun
Chicago	31	sun	29	25	sun	32	28	sun	33	29	sun
Cairo	31	sun	29	25	sun	32	28	sun	33	29	sun
Canton	31	sun	29	25	sun	32	28	sun	33	29	sun
Cebu	31	sun	29	25	sun	32	28	sun	33	29	sun
Colombo	31	sun	29	25	sun	32	28	sun	33	29	sun
Copenhagen	18	cloudy	15	12	cloudy	18	15	cloudy	20	17	cloudy
Dallas	31	sun	29	25	sun	32	28	sun	33	29	sun
Delhi	31	sun	29	25	sun	32	28	sun	33	29	sun
Dubai	31	sun	29	25	sun	32	28	sun	33	29	sun
Dublin	18	cloudy	15	12	cloudy	18	15	cloudy	20	17	cloudy
Durham	18	cloudy	15	12	cloudy	18	15	cloudy	20	17	cloudy
Edinburgh	18	cloudy	15	12	cloudy	18	15	cloudy	20	17	cloudy
Faro	31	sun	29	25	sun	32	28	sun	33	29	sun
Frankfurt	18	cloudy	15	12	cloudy	18	15	cloudy	20	17	cloudy
Geneva	18	cloudy	15	12	cloudy	18	15	cloudy	20	17	cloudy
Gibraltar	31	sun	29	25	sun	32	28	sun	33	29	sun
Glasgow	18	cloudy	15	12	cloudy	18	15	cloudy	20	17	cloudy
Hamburg	18	cloudy	15	12	cloudy	18	15	cloudy	20	17	cloudy
Helsinki	18	cloudy	15	12	cloudy	18	15	cloudy	20	17	cloudy
Hong Kong	31	sun	29	25	sun	32	28	sun	33	29	sun
Honolulu	31	sun	29	25	sun	32	28	sun	33	29	sun
Istanbul	31	sun	29	25	sun	32	28	sun	33	29	sun
Jakarta	31	sun	29	25	sun	32	28	sun	33	29	sun
Jersey	18	cloudy	15	12	cloudy	18	15	cloudy	20	17	cloudy
Karachi	31	sun	29	25	sun	32	28	sun	33	29	sun
Kuala Lumpur	31	sun	29	25	sun	32	28	sun	33	29	sun
London	18	cloudy	15	12	cloudy	18	15	cloudy	20	17	cloudy
Los Angeles	31	sun	29	25	sun	32	28	sun	33	29	sun
Luanda	31	sun	29	25	sun	32	28	sun	33	29	sun
Lyons	18	cloudy	15	12	cloudy	18	15	cloudy	20	17	cloudy
Madrid	31	sun	29	25	sun	32	28	sun	33	29	sun
Manila	31	sun	29	25	sun	32	28	sun	33	29	sun
Maracaibo	31	sun	29	25	sun	32	28	sun	33	29	sun
Mexico City	31	sun	29	25	sun	32	28	sun	33	29	sun
Moscow	18	cloudy	15	12	cloudy	18	15	cloudy	20	17	cloudy
Mumbai	31	sun	2								